REPORT OF THE

ONE-MAN INDEPENDENT BODY

TO ENQUIRE INTO THE QUESTION OF

DEARNESS ALLOWANCE

PAYABLE TO

CENTRAL GOVERNMENT EMPLOYEES

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1. PRELIMINARY : TERMS OF REFERENCE

By their resolution No. F.1(5)-E. II(B)/64 dated August 27, 1964 the Government of India in the Ministry of Finance (Department of Expenditure) constituted an Independent Body to examine and report whether in the matter of dearness allowance payable to Central Government employees, compensation already sanctioned by them from time to time in the various pay ranges is adequate and to recommend what changes, if any, are necessary therein. The question of adequacy of compensation can be examined from two points of view; (a) from the point of view of the number and nature of pay ranges and the upper pay limit upto which dearness allowance should be paid, and (b) what amount should be adequate, in all the relevant circumstances, for each pay range. The first point of view is qualitative and the second quantitative. I shall examine the question from both these points of view. If on an examination of the question it is found that the compensation already sanctioned is adequate from all points of view, it is obvious that no changes need be recommended. If on the contrary it is found to be inadequate from both or either point of view, changes would then be necessary and would require a careful and precise formulation.

The enquiry conducted by me is primarily limited by the terms of reference except perhaps in one matter to which I shall presently advert.

In their resolution the Government of India have quoted the recommendations of the Second Pay Commission (1957-59) contained in paragraph 16 of Chanpter IX of the Report. These recommendations had suggested a payment of dearness allowance to employees drawing pay below Rs. 300 in two categories:

(a) a sum of Rs. 10 per mensem to employees drawing a basic pay below Rs. 150; and

(b) a sum of Rs. 20 per mensem to employees drawing basic pay of Rs. 150 or above but below Rs. 300.

The Pay Commission had suggested marginal adjustments for employees drawing a basic pay of Rs. 300 and above but below Rs. 320. The Commission made it clear that the rates of dearness allowance recommended by it should be taken as related to the consumer price index 115 (All India Working Class Consumer Price Index with base 1949=100) and should continue unless the index fell below 100. The Commission also stated that if during a period of twelve months the index remained, on an average, 10 points above 115, Government should review the position and consider

whether an increase in the dearness allowance should be allowed, and if so, at what rate. The Commission also recommended that if the index fell by the same margin and for the same period (*i.e.* average of 10 points during a period of 12 months), the position might be similarly reviewed and appropriate adjustment made. It also recommended that the benefit of dearness allowance should, in future upward adjustments, be extended to all employees drawing a basic pay below Rs. 400 per mensem in such a way that the total of basic pay and dearness allowance paid to an employee in the pay range of Rs. 300 to 400 did not exceed Rs. 400.

The rates of dearness allowance recommended by the Pay Commission were accepted by the Government of India and they were brought into force from July 1, 1959. On the working class consumer price index rising, on the average, to 125 during the period November, 1960 to October, 1961, Government increased the rates of dearness allowance from November 1, 1961. Again, due to rise in the index, an *ad hoc* increase in the rates of dearness allowance was allowed from July 1, 1963. The average index for the period February, 1963 to January, 1964 rose to 135 and the rates of dearness allowance were further revised from February 1, 1964. The following table shows at a glance the rates of dearness allowance allowed by Government from time to time:

Pay range	From 1-7-59	From 1-11-61	From 1-7-63	From 1-2-64
Rs.	Rs.	Rs.	Rs.	Rs.
Below 110	10	15	17	20·50
110 and above but below 150	10	15	20	25·50
150 and above but below 210	20	30	35	42
210 and above but below 300	20	30	40	50
300 and upto 320	Amount by which pay falls short of 320.	Amount by which pay falls short of 330.	Amount by which pay falls short of 340.	..
300—315	..	..	..	Amount by which pay falls short of 350.
321 and upto 380	..	10	20	..
381 and upto 390	..	10	Amount by which pay falls short of 400.	..
391 and above	..	Amount by which pay falls short of 400.	Do.	..

Pay range	From 1-7-59	From 1-11-61	From 1-7-63	From 1-2-64
Rs.	Rs.	Rs.	Rs.	Rs.
16—384	..	..	..	35
385 and upto 400	..	..	..	Amount by which pay falls short of 420
401—580	..	..	..	20
581 and above	..	..	..	Amount by which pay falls short of 600.

Two points are worth noting here. One is that in increasing the rates of dearness allowance from 1st July 1963 Government split up the two categories of employees drawing pay below Rs. 300, as indicated by the Pay Commission, into four categories:

(a) below Rs. 110;

(b) Rs. 110 and above but below Rs. 150;

(c) Rs. 150 and above but below Rs. 210; and

(d) Rs. 210 and above but below Rs. 300.

The marginal adjustments were continued upto Rs. 399, except that for the pay range of Rs. 316 to Rs. 384 a sum of Rs. 35 was fixed as dearness allowance from February 1, 1964 with a marginal adjustment between Rs. 385 and upto Rs. 400, and for the pay range of Rs. 401 to Rs. 580 a sum of Rs. 20 was fixed as dearness allowance with a marginal adjustment in the pay range of Rs. 581 to Rs. 600. In other words, the second point worthy of notice is that Government not merely gave effect to the recommendations of the Pay Commission that the benefit of dearness allowance should, in future upward adjustment, be extended to all employees drawing basic pay below Rs. 400 per mensem, but granted dearness allowance to employees drawing pay upto Rs. 599.

Certain associations of Government employees represented to Government that the increase of dearness allowance which Government had sanctioned from time to time was not adequate. This led the Government to set up the present Independent Body. The operative portion of the terms of reference reads as follows:—

> "Subject to the recommendations and general observations made by the Pay Commission in Chapter IX of their Report, and having regard to the various causes of the rise in prices, the state of the economy, the impact of increased pays on prices and other relevant circumstances, the Body will examine and report to the Government whether the compensation already granted in the various pay ranges is adequate and recommend what changes, if any, are necessary."

By a Presidential Order dated August 31, 1964, I was appointed as Sole Member of the Independent Body and the duration of the appointment was fixed for a period not exceeding four months, later extended by a fortnight. I commenced the enquiry on September 1, 1964.

Soon after I commenced the enquiry and even some time before it, there was an agitation on behalf of some Associations of Central Government employees for (i) widening the terms of reference of the Independent Body in several particulars including a reconsideration of the dearness allowance formula of the Second Pay Commission and (ii) interim relief. In reply to a notice by some members of Parliament calling attention to a matter of urgent public importance, a statement was made in the Lok Sabha by the Minister of State in the Ministry of Finance. This statement said *inter alia*: "On the eve of the strike by some Central Government employees in July, 1960, Government announced its decision to compensate the rise in the cost of living by a minimum of 50 per cent and, in the event of disagreement regarding the extent of further neutralisation, to refer the matter to an Independent person. While re-affirming this decision in this House on the 8th August, 1960, the late Pandit Gobind Ballabh Pant, the then Home Minister, made it clear that there was no question of turning down the basic recommendations of a high-powered body like the Pay Commission. But, he added, the Prime Minister was always prepared to consider matters within the framework of the recommendations of the Commission.

That this offer of impartial settlement related only to the quantum of compensation which the Commission had left to the Government to decide on each occasion and *not* also to the specific recommendations made by the Commission has been clear even from the representations made by the employees from time to time. The employees have not been satisfied with the substantially high neutralisation granted. They have been referring back to the assurances given by the Prime Minister and the Home Minister in 1960. In response to their demand, an Independent Body consisting of Shri S. K. Das has been constituted. The report and recommendation of this Body will be given fullest consideration due to a body of this status. It is open to that Body to make relevant general observations on the basis of such facts and representations as may be placed before it. They will also receive proper consideration." A similar statement was made in the Rajya Sabha in which it was stated : "Government do not consider that there has been any development to justify departure from the basic principles evolved by the Pay Commission. Moreover, it is important that the Independent Body should make its recommendations as quickly as possible. It is not therefore Government's intention that the one-man Body should be called upon to recommend modifications and departures from the principles and conclusion which a high-powered Pay Commission had formulated after the most careful and detailed investigation by experts in the line. Nevertheless, while it is not within the terms of reference of the Independent Body itself to review the basic formula, its discretion to make comments in its report if on the basis of facts and representations placed before it by the employees, it is of opinion

that the formula itself needs to be further examined, is unfettered. Any such comments will be given the fullest consideration. Government earnestly hope that in view of what I have explained all employees will extend their full support to the Independent Body in making its task fruitful."

The position that emerges from the aforesaid statements, as I understand them, is this: firstly, there are the terms of reference which delimit the scope of my enquiry, and secondly, even though a review of the basic formula for dearness allowance laid down by the Pay Commission does not come within the terms of reference, it is open to the Independent Body "to make comments in its report if on the basis of the facts and representations placed before it by the employees, it is of opinion that the formula itself needs to be further examined." The results of my enquiry must, therefore, be in two parts: one part will deal with matters which strictly come within the terms of reference, and the other part, which is discretionary, will deal with the basic dearness allowance formula laid down by the Pay Commission if and when I am satisfied that the formula itself requires further examination.

As to the terms of reference, some Associations have commented that they are so rigid and inelastic that it is impossible to give any relief to the employees within those terms; some other Associations have taken their stand on the view-point that the recommendations of the Pay Commission do not go beyond 115 points of the cost of living index and their general observations relate to the same area, and as the cost of living has now gone far beyond 115 the Independent Body is free to make such recommendations as it likes having regard to all the relevant factors of the case, without being bound by the recommendations and general observations of the Commission.

I do not subscribe to either of these two extreme views. I understand the terms of reference to mean that the qualitative and quantitative examination of the compensation sanctioned by Government from time to time, must be within the general framework of the recommendations and general observations made by the Pay Commission in Chapter IX of their Report. Within that framework, I must also keep in mind all the other relevant factors mentioned in the operative part of the terms of reference which I have quoted earlier.

2. Procedure followed in the Enquiry.

Having cleared the ground with regard to the true import and scope of the terms of reference, I proceed now to indicate the procedure which I have followed in making the enquiry. The terms of reference stated that the Independent Body would devise its own procedure, and it was given the privilege of calling for such information and having such evidence as it might consider necessary. The Ministries and Departments of the Government of India were directed to furnish such information and documents which might be required by the Independent Body. On September 6, 1964,

a general notice was issued by which all Associations of Central Government employees and other Organisations, institutions or individuals interested in the questions referred to the Independent Body, were invited to send memoranda of their views on matters covered by the terms of reference on or before September 18, 1964. In response to this notice a number of Associations submitted their memoranda of views, some on or before the due date and some after it. A list of Associations which submitted memoranda of their views is enclosed with this report and is marked Appendix I.

The hope expressed by the Minister of State in his statement in the Rajya Sabha that all employees will extend their full support to the Independent Body in making its task fruitful did not however materialise. Some of the Associations and Unions of Central Government employees withheld their cooperation. Some of the Associations passed Resolutions explaining their position and giving reasons why they withheld cooperation. A copy of the Resolution was sent to Government as also to me. I invited the attention of some of these Associations to the statements made in Parliament by the Minister of State and informed them that in view of those statements, I was hearing all Associations and Unions who wished to make representations or place facts on the question of the revision of the dearness allowance formula laid down by the Pay Commission. In spite of this however the Associations which withheld cooperation continued to do so.

It is a matter of regret that the Independent Body did not have the cooperation of a number of Associations or Unions of Central Government employees and was thus deprived of the benefit of hearing what they had to say. The circumstances in which these Associations withheld cooperation were beyond the control of the Independent Body, which had no other option but to proceed with the enquiry with the assistance of such Associations, Organisations, Institutions and individuals as co-operated with it.

A preliminary sitting was held on September 21, 1964 to settle the procedure to be followed during the enquiry. At this preliminary sitting it was decided that each Association or Organisation would be heard orally on its memoranda, provided such a hearing was desired by the Association. A similar procedure was followed with Institutions, Organisations and individuals who had submitted memoranda of their views. Such of them as desired a personal hearing were heard at a place and time convenient to them. It was decided in consultation with the Ministry of Finance that ordinarily two representatives would be heard on behalf of each recognised Association or Organisation and they would be entitled to get travelling allowance for the purpose. It was also decided that if the Independent Body desired to hear any expert or any person with special knowledge of any of the questions involved, it would be open to the Independent Body to do so. As the time at the disposal of the Independent Body was very short, it was decided not to have a formal recording of evidence. Whenever, however, any views were expressed in addition to or different from the views expressed in the original or supplementary memoranda submitted by Associations, Organisations, Institutions or individuals, a short note of the views expressed

was made. Some of the Associations also submitted supplementary memoranda embodying therein their views on fresh points which arose in the course of the enquiry.

The Associations, Organisations or Institutions which submitted original or supplementary memoranda of their views were spread all over the country and some of these Associations, Organisations or Institutions desired a personal hearing at a place and time convenient to them. The table below shows the place, number of Associations, and the dates on which their representatives were heard:

Place	Number of Associations	Dates on which heard
1. Delhi	27	Between 28-9-64 to 2-11-64.
2. Bombay . . .	14	Between 6-11-64 to 10-11-64.
3. Cochin . . .	2	14-11-64.
4. Madras . . .	8	Between 17-11-64 to 20-11-64.
5. Calcutta . . .	5	Between 24-11-64 to 28-11-64.

The Independent Body concluded the hearing of All Associations Organisations and Institutions by the end of November, 1964. On December 11, 1964, the Independent Body had the benefit of the views of some top ranking officials who have either great administrative experience or expert knowledge in respect of matters falling within the purview of the enquiry. A list of persons, both official and non-official, including representatives of Associations, Organisations, and Institutions, who were heard by the Independent Body on different dates is enclosed herewith and is marked Appendix II.

The Independent Body made it clear, however, that the views expressed by the officials heard by it were not views authorised to be expressed on behalf of Government, or of any Ministry or Department thereof; they were views of men with administrative experience and expert knowledge which the Independent Body wished to hear for assistance in formulating its views. I am obliged to these gentlemen as also the representatives of various Associations for the assistance which they have given. At this stage I must make it clear, however, that in making my recommendations I have taken into consideration the views of all concerned, though I have not considered it necessary to state which particular view was expressed by whom. The responsibility for making such recommendations and general observations as I have made, is entirely mine and I have no desire to shirk that responsibility by seeking shelter under the views expressed by any individual, Association, Organisation or Institution.

3. General Principles.

In examining the question of adequacy of compensation in the matter of dearness allowance I have kept in mind certain general principles laid down by the Second Pay Commission, and I have done this in view of my terms of reference which require me to examine the matter within the framework of the recommendations and general observations of the Pay Commission.

The previous history of the institution of dearness allowance was briefly summarized by the Pay Commission in paragraphs 1 and 2 of Chapter IX of their Report. I do not think that any useful purpose will be served by repeating that history. The general principle underlying the grant of dearness allowance has been stated by the Pay Commission in paragraph 10 of their Report:

> "A dearness allowance is a device to protect, to a greater or lesser extent, the real income of wage earners and salaried employees from the effects of rise in prices; and the distinction we have made in the preceding paragraph (namely, paragraph 9) is based on the consideration that employees in the lower pay ranges in particular would suffer serious hardship without such protection, while those drawing higher salaries may not. But even among the lower paid employees, there is gradation; not all of them require the same degree of protection."

The Pay Commission has expressed the view that a dearness allowance can have justification only if the current level of prices does not represent a normal situation and there is a reasonable likelihood of the prices coming down; if the dearness allowance is to be retained, it is necessary to come to a conclusion as to what should be regarded as a stable level of prices, a level with reference to which the basic remuneration can be determined and the dearness allowance adjusted. Having regard to the evidence given before it, the Commission adopted the consumer price index 1949 as equal to hundred and as providing the basis for the determination of basic pay and adjustment of dearness allowance. The Commission was aware that the working class consumer price index was not designed to measure changes in the cost of living of the middle or higher classes and that any assessment of changes in the real value of salaries above Rs. 300—400 range on the basis of the working class consumer price index was of the nature of a rough estimate. In paragraph 7 of Chapter IX of the Report, the Commission made it clear that they took the consumer price index 1949 as the base for redetermining the salaries and wages, even though it meant absorption of the bulk of the previous dearness allowance in basic remuneration. The Commission then said:

> "We have taken the view that it would be unrealistic, and unfair to the employees, to maintain the present ratio between the basic salaries and wages, and dearness allowance, when on the evidence before us there is little room for doubt that the

prices will never go down to the level to which the present relative proportions of the two parts of the total remuneration are related."

Some of the Associations have contended before me that the Commission wrongly assumed that prices would stabilise round about those prevailing in 1949 and the determination of basic pay and adjustment of dearness allowance having been based on such an assumption, they have lost touch with reality in the present circumstances because of the steady spiralling of prices and consequent rise in the cost of living. These Associations have contended that there is no likelihood of prices stabilising round about the figures of 1949 and on the views expressed by the Commission itself, a case has arisen for a revision of the pay structure and a rethinking on the adjustment of dearness allowance on a more realistic basis than what the Pay Commission adopted. With reference to these contentions I have to point out that a revision of the pay structure is not within my terms of reference and if my enquiry is to be within the general framework of the scheme of the Pay Commission, I must assess the rise in prices and consequent changes in the cost of living on the basis on which the Commission proceeded. It is for Government to decide if there has been a radical change in the situation from that envisaged by the Pay Commission so as to require the setting up of another highpower Commission to go a fresh into the question of pay structure, etc.

Proceeding as I am on the principles laid down by the Pay Commission in making my examination, both from the qualitative and quantitative points of view. I mav for the sake of clarity re-state these principles:

(1) A dearness allowance is a device to protect, to a greater or lesser extent, the real income of wage earners and salaried employees from the effects of rise in prices.

(2) A distinction has to be made between employees in the lower pay ranges and those drawing higher salaries.

(3) Even among the lower paid employees there is gradation, and all of them do not require the same degree of protection.

(4) For the purpose of considering the adequacy of compensation, the working class consumer price index of 1949 is adopted as the base with reference to which dearness allowance is to be adjusted.

(5) Even though the working class consumer price index is not designed to measure changes in the cost of living of the middle or higher classes, it must be taken, in the absence of a middle class cost of living index, as a rough estimate of the changes in the cost of living which have taken place.

I may state here that in their Report the Pay Commission said that they were given to understand that a middle class cost of living index was likely to come into existence in a year or two. I made an enquiry from the relevant Ministry as to whether the middle class cost of living index was

ready, and I was told that there was no likelihood of such a cost of living index being ready before 1966. I have, therefore, no other option but to proceed on the working class consumer price index for estimating the rise in prices. Some of the Associations have placed before me Volume I of the Report on the Middle Class Family Living Survey, 1958-59, published in 1964 by the Central Statistical Organisation, Department of Statistics, Government of India. I shall refer to this Report in subsequent paragraphs of this report when considering the question of the upper pay limit upto which dearness allowance should be adjusted even within the framework of the recommendations and general observations of the Pay Commission.

4. **Cost of living index and the rise in prices.**

It may be advisable to set out here some of the comments made before me with regard to the current series of the working class consumer price index as reflecting the rise in prices.

Several Associations have contended before me that the current series of the cost of living index on which the Second Pay Commission based its recommendations and on which I am proceeding in the present enquiry, does not correctly reflect the rise in prices and consequent erosion in the real income of wage earners and salaried employees of Government. It is pointed out that the First Pay Commission, known as the Varadachariar Commission, determined basic salaries on the assumption that prices might stabilize at a level which would give a cost of living index between 180—200, taking the 1939 index to be 100, and took the view that so long as the cost of living continued to be substantially higher, the system of dearness allowance must continue in operation; they accordingly proceeded to recommend a scale of dearness allowance payable at different levels of the cost of living index to employees in different pay ranges upto Rs. 1000 with marginal adjustments between Rs. 1000 and 1100. The scale which the Varadachariar Commission recommended is set out in paragraph 1 of Chapter IX of the Report of the Second Pay Commission.

One of the contentions urged before me is that if the series on which the Varadachariar Commission based its recommendations is adopted for comparison and ascertaining the extent of the rise in prices since 1939, a more correct appreciation of the erosion in the real income of Government employees over a fairly long period will be available than on the basis of the new series.

The series of the cost of living index with August, 1939 as the base is no longer in current use and is compiled only for facility of comparison by multiplying the current series with its base in 1949, by a certain figure, namely, 3·56. The parallel figures of the two series have been given in the foot-note at page 91 of the Report of the Second Pay Commission.

In 1952 a Committee was constituted to advise Government on the portion of dearness allowance (then granted to Central Government servants), which should be treated as pay. This Committee came to be known

as the Gadgil Committee, because Shri N. V. Gadgil, then Member of Parliament, was the Chairman of the Committee. This Committee dealt with the whole question of the cost of living index in Chapter II of its report. It traced the history of the construction of an all-India index, and pointed out the unsatisfactory position resulting from the existence of a large number of series which had started at widely different points of time and perhaps for different purposes and with different weighting diagrams. In January, 1947 it became necessary in connection with the recommendations of the Varadachariar Commission to work out an all-India working class cost of living index with a pre-War base. A practical difficulty arose in the way of utilizing for this purpose the uniform series prepared on the 1944 base, for linking the series on the 1944 base with the earlier provincial series and shifting the base to 1939. To avoid this difficulty, the then existing provincial series were accepted and an all-India figure was built up from the indices relating to six important localities. The all-India cost of living index figures were thus prepared on the pre-War base (i.e. August, 1939=100).

Independently, it was decided to examine the possibility of constructing a more broad-based index which would take into account the further material that had since become available. An all-India index number was prepared from uniform individual indices for as many as 24 centres taking as base the calendar year 1944. The Gadgil Committee pointed out that it was necessary to adopt a national index as dearness allowance is granted at a uniform rate throughout the country. The difference between the index adopted by the Varadachariar Commission with a pre-War base, which was also adopted by the Gadgil Committee, and the series on the 1944 base was very small. This was pointed out by the Gadgil Committee.

The Gadgil Committee further pointed out that the index number of wholesale prices covered about 78 commodities divided into 5 major groups comprising food articles, manufactured articles, semi-manufactured articles, industrial raw-materials and miscellaneous items. The cost of living index however comprised food articles, fuel and lighting, house rent, clothing and miscellaneous items. The weightage given to the commodities that go to form the wholesale price number is different from that given in the construction of the cost of living index; therefore, it will be fallacious to argue that merely because there has been an increase in the index number of wholesale prices, there must necessarily be an increase of the same order in the cost of living index. I am referring to this point here, because some of the Associations have relied on the wholesale price indices in support of their claim for dearness allowance.

I have thought it expedient to summarise very briefly the circumstances in which the all-India series came into existence to emphasise two points; first, the necessity of adopting a national index because dearness allowance is granted to Central Government employees at a uniform rate throughout the country; and secondly, an all-India series prepared from uniform individual indices from a large number of centres gives a more correct indication of the rise in prices throughout the country than what is indicated by

local or regional indices which must necessarily reflect a considerable degree of heterogeneity in conditions in a big country like India.

Those Associations which have urged before me that the current series with its base in 1949 does not correctly reflect the rise in prices, have submitted the following points in support of their contention:

(1) They say that the current series does not correctly reflect the rise in prices in big cities like Bombay and Calcutta and also ignores local or regional variations; it was brought to my notice that when the all-India index stood at 159 in September, 1964, the index for the State of Maharashtra stood in the neighbourhood of 170 and the index in Kerala stood near about 164;

(2) they point out that the all-India index is prepared on the basis of controlled rates for controlled commodities; but these commodities are not always available at those rates.

In my opinion, no case has been made out for a departure from the all-India series with 1949 base, on which the Second Pay Commission adjusted dearness allowance. The old series with the pre-War base may be used for facility of comparison, but the recent rise in prices must be measured on the new series, because the basic pay of Government employees was re-determined by the Second Pay Commission on that basis and dearness allowance was adjusted accordingly. As long as the basic pay continues to be related to the 1949 base, the rise in prices to be compensated for by the grant of dearness allowance must be similarly related. This seems to me to be self-evident.

As to local or regional variations, this aspect has been dealt with already. In my opinion, it would be unwise on principle and inexpedient in practice to grant dearness allowance to Central Government employees on a local or regional basis. As to controlled commodities, I see no objection to the adoption of controlled rates. Any other method would be tantamount to accepting as legal something which is clearly illegal.

I proceed now to examine the rise in prices as shown by the current series of the all-India working class consumer price index. The Second Pay Commission based its adjustments of dearness allowance on 115 points of the index; the adjustments recommended came into force from July 1, 1959. The cost of living index has recorded an almost steady rise since that date. In Appendix III is a statement showing the cost of living index, month by month, from July 1959 upto and including October, 1964. In a parallel column of the Statement is shown the annual average also month by month. The annual average of 125 was reached in October, 1961, though 125 was reached as early as August, 1959—only a month after the adjustments recommended by the Second Pay Commission came into force. There was a decline from December, 1959 to about April, 1960. Then, there was an increase, followed again by a decline from December, 1960 to about May, 1961. From August, 1961 the index continued at 128 or 127

for several months. From May, 1962 there was a steady increase till December, 1962 when there was a slight decline which continued till March, 1963. From April, 1963 there has been a steady increase till 163 was reached in October, 1964. This is the last figure available to us. As to the annual average, I had pointed out that 125 was reached in October, 1961. The annual average of 135 was reached in January, 1964—though 135 was reached as far back as July, 1963. The annual average of 145 was reached in September, 1964, though 145 was reached in May, 1964. The formula of "10 points annual average" worked in the following way for the period under our consideration:

Average of 10 points.	Period taken to reach it from the time the point itself was reached.
125	August 1959 to October 1961 = 2 years 2 months.
135	July 1963 to January 1964 = 6 months.
145	May 1964 to September, 1964 = 4 months.

The following considerations emerge from the picture given above:

(1) As compared to the 1949 base which was adopted by the Second Pay Commission for (i) redetermining the pay of Central Government employees and (ii) adjustment of dearness allowance, there has been a phenomenal rise in prices with very substantial erosion in the real income of wage earners and salaried employees of Government.

(2) There is usually a seasonal variation in the index numbers—the increase taking place between April and June and the downward trend in December—February. Since April, 1963, however, there has been a steady increase without a decline. Normally, the seasonal variation is of a small order between the months of April and July; but in the current year the increase is steep and steady.

(3) The "annual average of ten points" formula may, in certain circumstances, deprive the employees of the benefit of a rise in prices for a considerable period.

These three features will require a more detailed treatment when I enter into an examination of the adequacy of compensation sanctioned by Government from time to time and consider the criticisms made with regard to the operation of the formula for adjustment of dearness allowance. At this stage I am only indicating some of the characteristics of the recent rise in prices as shown by the cost of living index.

I now turn to some other features of the same problem which have been emphasised before me by some of the experts whom I have heard. One of the factors which my terms of reference state that I shall have regard to,

is "the various causes of the rise in prices". My attention has been drawn to the distinction between (i) short-term causes and long-term causes, (ii) causes resulting in a burden which everybody must share including Government employees, and (iii) policy-induced changes as a result of taxation etc., the burden of which must be borne by those on whom it is intended to fall either as a deflationary measure or as a measure of equitable distribution of income.

In paragraphs 11 and 12 of their Report the Second Pay Commission had dealt with the question of the rise in prices and the various considerations which have to be kept in mind in connexion therewith, in the context of what has been called neutralisation, that is, the extent to which Government employees are entitled to compensation in the shape of dearness allowance on account of a rise in prices. Having regard to the considerations mentioned in those paragraphs, the Commission came to the conclusion that the causes of the rise in prices must at any time constitute a material factor in deciding whether the Central Government employees should be compensated, and if so, to what extent. Now, most of the experts whom I have heard have stated that the recent rise in prices has been due to a complexity of factors, and economists who have expressed their opinion on the question are not all agreed as to the emphasis to be laid on one set of factors or the other; some have emphasised the commitments under what is often called as Defence plus Development on a plane which necessarily involves a very large measure of deficit financing; others have emphasised the slow rate of growth in the matter of agricultural output, coupled with the rapid rate at which population increases in our country; still others have emphasised the factors arising out of defective distribution including hoarding at all stages from production to consumption, and deliberate withholding of supplies to the market for the purpose of profiteering by wholesale and retail traders and a host of middlemen in between. Some have emphasised the disparity between "input" and "output", the magnitude of the investment in its relation to the resulting production of goods. Some again have emphasised the monetary policy of Government including credit facilities which have enabled producers and traders to hold back agricultural produce from the market, the part played by "unaccounted for money" in that respect, and rising taxation. etc. Some have commented on agricultural prices which they say are not producer-orientated. Wherever the emphasis may be laid, it is clear that adverse terms of trade and other world-factors referred to by the Second Pay Commission in paragraph 12 of Chapter IX of their Report, are not the primary causes of the present difficult situation.

It is not my intention to embark on a full-scale examination of all the various factors which have operated in the field; nor is it easy to assess the extent to which each factor has contributed to the final result. I did not have the necessary expert evidence on the various factors involved, nor was it possible for me within the time-limit imposed on me to undertake a full and detailed examination of such a complex problem. I may, however, refer to the total agricultural production in the country during the last five years, particularly of principal items of foodgrains. The figures have been supplied to me by the Ministry of Finance and it has been stated that they

have been extracted from a paper prepared by the Department of Agriculture. These figures are:

Commodity	Unit	1959-60	1960-61	1961-62	1962-63	1963-64
(i) *Foodgrains.*						
(a) Rice . .	Million tonnes.	31·7	34·2	34·8	31·9	36·5
(b) Wheat . .	Do.	10·3	11·0	12·0	10·8	9·7
(c) Other cereals .	Do.	22·9	23·1	22·6	24·3	23·3
(d) Pulses . .	Do.	11·8	12·7	11·6	11·4	9·9
Total Foodgrains		76·7	81·0	81·0	78·4	79·4
(ii) *Principal commercial crops.*						
(a) Cotton . .	Million bales (of 180 kgs. each).	3·5	5·3	4·5	5·3	5·4
(b) Jute . .	Do.	4·5	4·0	6·3	5·4	6·0
(c) Oilseeds .	Million tonnes.	6·6	6·6	7·0	7·1	7·1
(d) Sugarcane (Gur)	Do.	7·9	10·6	10·1	9·5	10·3
(iii) *All commodities.*						
	Index Nos. 1949-50=100	130·3	139·7	141·4	137·2	140·5

Though I have not undertaken a full-scale examination of the problem of rise in prices, it seems clear that over a fairly long span of years the price level has been showing a basic upward trend; secondly, all the main groups of the index number exhibit this trend though the amount of increase and the precise course of the index number over the period vary from group to group; thirdly, the largest price rise has taken place in the group 'food articles'. What gives the present situation piquancy are the following two noticeable features: (1) the rate of which prices have been increasing has shown acceleration, and (2) the acceleration has been very pronounced of late. The expressions 'short term' and 'long term' are comparative terms, and it is more or less admitted that those who have a fixed or stagnant income are hit harder by the rise in prices or fall in the value of the rupee. On even a cursory analysis of the factors involved, the following conclusions appear to me to be incontestable:

(1) For a number of years prices have been exhibiting an upward trend.

(2) The situation has taken a turn for the worse in the last two years.

(3) The main cause on the supply side has been the slow rate of growth of agricultural output.

(4) On the demand side, to the pressures arising from developmental expenditures there have been added the pressures arising from defence expenditures.

The persistent tendency of prices to increase and the acceleration in the recent period indicate that for a long period the economy has been suffering from a basic imbalance between aggregate demand and aggregate supply which has become serious in the last two years. Behind this phenomenon are both supply and demand factors; on the side of supply, there are what may be called 'real' factors; on the side of demand there are both 'real' and monetary factors. In these circumstances, I consider that it would be unfair and unjust to deny to Government employees adjustment of dearness allowance to compensate for the fall in their real income. To what extent such compensation should be given is a related but different problem to which I shall address myself when discussing the question of neutralisation. It is true that some of the causes which have resulted in the present burden are such that the burden must be borne by all; but the point to note here is that everybody is not so placed as to share the burden equally. The ability to share the burden is also a relevant consideration. Similar is the position with regard to policy-induced changes. Dealing with this aspect of the matter, the Second Pay Commission said :

> "It seems to us that while it may not be right to provide for full Compensation irrespective of the circumstances when the rise in prices occurs, it would not be right also to rule out such compensation in advance. Whatever economic purposes a rise in prices may achieve, its effects are usually not in accordance with any consciously desired social objectives. As is well-known, inflation favours some classes of the population and penalises others; and among the latter are salary earners unable to secure an increase in remuneration sufficient to maintain the real value of their income. Inflation is a most arbitrary method of distributing burdens, for it does not take account of the capacity of different groups in the population to bear the burdens; and we cannot accept that at least some of the social consequences of inflation must be left undisturbed, without judging whether they are fair and desirable."

5. **The state of the economy: Impact of increased pays on prices and other relevant factors.**

Some of the experts whom I have heard have emphasised the exceptionally difficult economic position which the country is now facing. It has been stressed that there is a strong inflationary trend, and "if an effort were made throughout the economy to compensate all fixed income earners for the decline in real value of their incomes in consequence of rise in prices, the

shift of resources towards investment uses would be rendered extremely difficult of achievement". The net result, the argument proceeds, of such an effort "would be a larger total volume of monetary demand in relation to real resources accompanied by a spiral of price and wage increases; and the process would defeat the aim of compensation, retard the investment programme and lead to serious dislocation of the economic development effort". It is further pointed out that the impact of increased pays will be to strengthen the inflationary forces, and this will give rise to a vicious circle in which wages will continuously chase prices and prices will go on rising with every increase in wages.

This line of argument was also presented before the Second Pay Commission and the Commission dealt with it in paragraph 11 of Chapter IX of their Report. I have already referred to the answer which the Commission gave to this line of argument (*see* the extract from the Report quoted by me in the preceding paragraph). It is, indeed, true that the inflationary trend has gathered greater momentum since the Report of the Second Pay Commission. I am unable, however, to accept this line of argument as a valid ground for a total refusal of compensation to fixed income earners, though I accept the position that in determining the extent of compensation which should be given, the present state of the economy of the country must be kept in mind.

From the statements made in Parliament on behalf of Government, the position taken up by them appears to be fairly clear. So far back as July, 1960, the Government announced its decision to compensate the rise in the cost of living by a minimum of 50 per cent and further agreed that in the event of a dis-agreement regarding the extent of further neutralisation, the matter would be referred to an independent person. Lest I be misunderstood, I must make it clear that I am not trying to raise any plea of estoppel or admission against the Government. Even on principle which has been so clearly enunciated by the Second Pay Commission, fixed income earners who are unable to pass on the burden of rising prices to others, must have some compensation for the fall in their income. As one expert has put it, in a developing economy, some increase in prices is inevitable and price rigidity is incompatible with development. But in a situation in which there is an abnormal increase in food-prices, nobody, least of all the Government which has an obligation to make available to the people food at reasonable prices, can look upon the increase with equanimity.

Another factor which influences prices is the changing pattern of demand for cereals. First, as a result of the rapid growth of population in India, there has been a shift of population from rural to urban areas. It has been estimated that during the decade 1951—61, the urban population increased by 17 millions. This shift in population has affected the pattern of demand for food-grains. Secondly, with an increase in the levels of income, the consumption of food-grains *per capita* has increased substantially in the lower income brackets. When there is even a small increase in income, the first demand of the poorer people is for more food-grains. The food-grains Enquiry Committee in its Report in 1957 estimated that an increase

in consumption by half the population by one ounce more of cereals *per capita* will put up the additional requirement by over two million tons. A marked increase in demand for food-grains brings about a changing pattern of consumption. This pattern involves a change not only from one commodity to another, but also from the inferior to the medium or even superior varieties of cereals. However, this aspect of the problem cannot be said to be undesirable in itself; for if the declared objective of the national economy is to achieve social justice by bettering the living conditions of the poorer sections of the society, it is a desirable result that they have the means to be free from hunger or malnutrition.

A reference may be made in this connexion to a large-scale imports of food-grains to tide over the present difficulty. It is recognised on all hands that importation of food-grains is a measure of a short-term nature, which can only help us to tide over our immediate difficulties. The recurring food problems of the country cannot be solved by a piece-meal approach. Unless the agricultural base is strengthened, the stresses and strains to which the economy has been so far frequently subjected will become even more frequent and, perhaps more chronic.

Some experts have drawn my attention to the repercussions which an increase in dearness allowance of Central Government employees may have on employees of State Governments and local Authorities as also employees in industrial undertakings of the public or semi-public sector. I have had no exact data with regard to such repercussions. No evidence was led before me specifically with regard to this point, nor was it possible for me within the time at my disposal to make the necessary enquiries from State Governments or gather the necessary data from public or semi-public undertakings. All that was brought to my notice was that some State Governments had increased the dearness allowance payable to their employees, but the principles on which such increase had been given could not be explained by those who raised this point. Therefore, it is somewhat difficult for me to judge with accuracy the extent of the repercussions on other persons, which may follow from an increase in dearness allowance to Central Government employees. I am aware, however, that such repercussions may follow, and I have kept that in mind in making my final recommendations.

Another relevant factor which has been brought to my notice is the distinction between the position of employees in industrial undertakings in the private sector and employees of Government. This distinction is relevant, because on behalf of some of the Associations a comparison has been made of the dearness allowance given by Government to their employees and the dearness allowance given to employees of industrial undertakings in the private sector, such as, Burmah Shell, Imperial Chemical Industries Ltd., Textile and Cement Mills, and other well-established industrial concerns. In the matter of dearness allowance these industrial concerns generally make a distinction between what is known as the award staff and the supervisory staff. So far as the award staff is concerned, dearness allowance is granted on the basis of the index number prepared by the Chamber of Commerce of the locality concerned. For the supervisory staff

dearness allowance is given on a more or less fixed basis. I do not propose to go into further details of what is done in the matter of dearness allowance in the private sector, because I am satisfied that the position of Government *vis-a-vis* their employees is somewhat different from that of industrial concerns in the private sector *vis-a-vis* their employees. One obvious distinction is that Government is not an industrial undertaking and unlike industrial undertakings in the private sector which ultimately depend on their profits for continued existence and can increase the prices of their goods on the basis of cost of production etc., Government raises its revenue primarily from taxation for which there is a limit. There are other significant distinctions, such as security of service, service conditions etc. In my opinion it would be wrong on principle and inexpedient in practice to base the grant of dearness allowance to Government employees on the basis of the pattern followed in private industrial undertakings. Some Associations have referred me to the proceedings of the tripartite Labour Conferences and emphasised that the attitude of Government at those Conferences was in favour of labour so that the needs of labour might not fall below a fair standard and Government should not now adopt a different attitude in respect of their own employees. One witness has put the matter somewhat euphemistically and said that there is a difference as to (a) what Government preaches, (b) what Government practises, and (c) what Government tolerates; and what Government tolerates on grounds of political expediency may not always be what is right. In my opinion, these are not considerations which should influence me. I have to examine the problem within my terms of reference, and considerations of political expediency do not fall within the purview of my enquiry.

I may now refer to the award given by the National Industrial Tribunal (Bank Disputes) in the matter of dearness allowance in certain industrial disputes between certain Banking Companies and Corporations and their workmen, to which my attention has been drawn by some Associations. The award is usually known as the Desai Award. Paragraph 5.391 at page 171 of the Award deals with dearness allowance. I quote below that paragraph:

> "5.391. I have next to consider the question when changes should take place in the amount of dearness allowance. If the dearness allowance is to be increased with every rise of one point in the index figure in the series 1949=100, it will similarly have to be decreased on every fall of 1 point with the result that there will be frequent changes in the total remuneration received by workmen. It is desirable that the pay packet of workmen should not fluctuate too often. I accordingly direct that in the case of the clerical staff, the dearness allowance should be calculated and paid at the rate of three per cent of the pay (*i.e.* basic pay provided under this award, special allowance, if any, and officiating allowance, if any, payable under this award) for every rise of four points above 100 in the quarterly average of the all-India average working class consumer price index (general), base 1949=100, and

in the case of the subordinate staff, the dearness allowance should be calculated and paid at the rate of four per cent of the pay (*i.e.* basic pay provided under this award, special allowance, if any, and officiating allowance, if any, payable under this award) for every rise of four points above 100 in the quarterly average of the all-India average working class consumer price index (general) base 1949=100. For this purpose 'quarter' will mean the period of three months ending on the last day of March, June, September or December. The final index figures as published in the Indian Labour Journal should be the index figures which should be taken for the purposes of calculating of dearness allowance. For the purpose of calculating the dearness allowance for any particular month, the quarterly average for the last quarter for which final index figures are available on the 15th day of that month should be taken. If the dearness allowance for the month of December has to be calculated, the quarterly average for the last quarter for which final index figures are available on the 15th of December should be taken."

Briefly put, the neutralisation awarded works out at 75 per cent in the case of the clerical staff and 100 per cent in the case of the subordinate staff; the dearness allowance is calculated on a quarterly average and on the pay packet of each employee. Speaking very generally, the subordinate staff in Banks comprises pay ranges up to about Rs. 112; and the clerical staff from about Rs. 112 to about Rs. 405. The point to notice is that employees in the lowest pay ranges get 100 per cent neutralisation for a rise of every four points.

The exact number of men affected by the Bank award is not known to me, but the number, I presume, must be much less than the number of Central Government employees for whom I am considering the question of dearness allowance. The number for whom I am considering the question is in the neighbourhood of about 22 lacs, of which about half belong to the Railways. I do not think that it would be right to follow exactly the pattern of the Bank award, for the circumstances are not the same even apart from the question of the number of persons involved. To this aspect of the matter I shall refer again when I go into the question of pay-ranges and neutralisation.

6. The nature and number of pay ranges; the upper pay limit up to which dearness allowance should be granted.

Having briefly surveyed the relevant considerations which I have to keep in mind in making the enquiry, I proceed now to the main problem of the adequacy of compensation sanctioned by Government from time to time in the matter of dearness allowance payable to their employees. The question, to which I am now addressing myself, is—what should be the pay ranges and up to what upper pay limit dearness allowance should be given? This, as I have said earlier, is the qualitative aspect of the problem.

Let me first refer to the recommendations and general observations made by the Second Pay Commission on this aspect. I have said earlier that in paragraph 16 of Chapter IX of the Report, which paragraph contains the recommendations of the Pay Commission, the Commission recommended that the benefit of dearness allowance should, in future upward adjustments, be extended to all employees drawing basic pay below Rs. 400 per mensem, in such a way that the total of basic pay and dearness allowance paid to an employee in the pay range of Rs. 300 to Rs. 400 did not exceed Rs. 400. This was a specific recommendation of the Pay Commission for the immediate future.

Apart, however, from this specific recommendation, the Pay Commission made certain general observations for further future adjustments, which are relevant here. These general observations are contained in paragraph 9 of Chapter IX of the Report. I quote below that paragraph:

> "9. It follows that there will, for the present, be no dearness allowance for those whose salaries, according to our recommendations, will be Rs. 300 or above. For future adjustments, however, we consider the staff above that level as falling in three groups, namely, (i) those in the pay ranges Rs. 300 and above, but below Rs. 400; (ii) those in pay ranges Rs. 400 and above, but below Rs. 1,000; and (iii) those whose salaries are Rs. 1,000 and above. We consider that those in (i) should, in future adjustments of the dearness allowance to meet rise in prices, be grouped with those in the pay range below Rs. 300; for the present, we recommend only marginal adjustments for those on a pay of Rs. 300 and above. As regards group (iii), we do not envisage a situation in the foreseeable future in which it should be necessary to allow to that group a compensation for rise in prices. Concerning group (ii), we do not wish to pre-judge their claims for dearness allowance, should the index continue to rise; and we suggest that their case may be considered in the light of the various relevant circumstances at the time; the state of the economy; the extent and duration of the price rise as measured by the middle-class cost of living index which, we understand, is likely to come into existence in a year or two; the trend of remuneration for comparable classes of employees outside Government; the availability of candidates of the requisite standard, etc."

It is apparent from what has been stated in the paragraph quoted above, that the Pay Commission clearly contemplated that the rise in prices in future might be so large that even those who were in the pay ranges of Rs. 400 and above but below Rs. 1,000 would be entitled to compensation by way of dearness allowance. As to persons in the pay ranges of Rs. 300 and above but below Rs. 400, the Commission suggested some marginal adjustments for the immediate future, but said that if prices continued to rise, they should be grouped with those in the pay range below Rs. 300. In a foot-note the Commission referred to certain amendments of the law

in support of their view that employees in the pay range of Rs. 300—400 stood on a par with employees in the pay range immediately below Rs. 300. As to persons whose salaries are Rs. 1,000 and above, the Pay Commission said that they did not envisage a situation in the foreseeable future in which it should be necessary to allow them a compensation for rise in prices.

On behalf of a large number of Associations in the middle and higher groups, it has been contended, and rightly in my opinion, that what the Second Pay Commission could not foresee in 1957—59 can be seen very easily to-day. They point out that it was impossible for the Pay Commission to foresee the recent phenomenal rise in prices, and they refer to the discussion of the price movement in paragraphs 5 and 6 of Chapter IX of the Report and say that the Commission could never foresee that the prices would soar up to 163 within a few years. They also point out that the Commission have nowhere said that persons in the pay ranges above Rs. 1,000 should never get compensation in the future.

I have already referred to the general principle that higher the salary of an employee, greater is the cushion which he has, to provide protection against a rise in prices. It is, therefore, important to ascertain to what extent the safety cushion has either shrunk or disappeared. This, in my opinion, is a crucial point for determining the upper pay limit up to which dearness allowance should be given. On the very principle enunciated by the Pay Commission, all those employees who have very little or no cushion at all, are entitled to some compensation, though the degree of compensation (which is the problem of neutralisation) must vary from pay range to pay range; the higher the salary, the lower will be the degree of compensation.

The Report on the Middle Class Family Living Survey, 1958-59, gives the relevant data on this point. The Report was based on a sample survey which was limited to cover middle class families described as "non-manual employees engaged in non-agricultural activities in urban areas." The survey envisaged a collection of information at each selected centre and a preparation of factual reports in respect of each centre. Information on income and other receipts was recorded under four main heads *viz.* (a) income from paid employment, (b) income from self-employment, (c) income from other sources and (d) other receipts. Expenditure, savings etc. were recorded under six different heads, *viz.* (a) food, beverages, tobacco, (b) fuel and lighting, (c) housing, household requisites, etc., (d) clothing, bedding, etc., (e) miscellaneous expenditure and (f) savings. The method followed was the interview method which has this disadvantage, *viz.* a general desire of the persons interviewed to deflate the income and inflate the expenditure. In spite of this defect, however, the results obtained by this survey give a very fair idea of the economic position of middle class families in the country at the present time. Statement 13 appended to the report gives a picture of monthly average family expenditure at each of 45 centres. Statement 14 gives the monthly average family expenditure of each income group at each of those centres.

From the aforesaid statements I have prepared a consolidated statement which I am marking as Appendix IV. This consolidated statement shows the economic position of middle class families in three income groups: (i) Rs. 500—Rs. 750; (ii) Rs. 750—Rs. 1,000; and (iii) Rs. 1,000—Rs. 1,500. The figures have been taken from three classes of cities, now classified as A, B1 and B2, to get a representative picture. On the left hand side of the statement is shown the average expenditure per month in 1958-59 of middle class families in the aforesaid three income groups; a simple average is then struck to get an idea of the average expenditure in 1958-59 of middle class families. On the right hand side of the statement are shown:

(i) average expenditure per month of a middle class family in 1958-1959;

(ii) rise in the all-India working class consumer price index since 1958-1959, which is in the order of 33 per cent;

(iii) the average expenditure of the same middle class families by reason of the increase of rise in prices;

(iv) average income of the family;

(v) the monthly deficit in each case, on the balancing of income against expenditure; and

(vi) monthly deficit expressed as a percentage of the monthly income.

The statement in Appendix IV shows that the three income groups mentioned above have no cushion left, to provide against a rise in prices, if they are to maintain their old standard of living. What little cushion they had at the time when the Second Pay Commission made their recommendations at 115 points, has either completely disappeared or has shrunk to an almost negligible limit.

It is pertinent to recall here the fact that the Varadachariar Commission had recommended the grant of dearness allowance to all employees drawing salary up to Rs. 1,000 per mensem. The Government had initially accepted the recommendation; but as the Second Pay Commission pointed out, except for the initial orders, the Varadachariar Commission's recommendations regarding dearness allowance were not followed. In 1947 when the Varadachariar Commission made their recommendation, the index was at 285 on the pre-War base, which would correspond to 80 in the current series. The increase from 80 to 163 which is the point at which the index stands in October, 1964 is of a very great magnitude. I am not basing my recommendations on the Varadachariar Commission's report, but on the general principles enunciated by the Second Pay Commission regarding the grant of compensation to Government employees.

I have come to the conclusion that the upper pay limit should now be raised to Rs. 1,200 with marginal adjustments in the pay range of Rs. 1,201 to Rs. 1,289; it is at that range that the safety cushion drops almost to nil. It is to be remembered that I am not recommending full compensation to

persons in the upper pay limit. Far from it. The neutralisation in their case, as I shall presently show, will be the lowest. The point is that they deserve some compensation to provide against the phenomenal rise in prices.

I may here refer to a point which some of the experts have made. They say that, (1) it is not sound on principle that people in the pay-ranges of Rs. 300 and above who are liable to pay income-tax should get dearness allowance and it is suggested that it would be more in consonance with principle to give them relief by means of tax concessions; (2) that persons in the higher pay ranges (Rs. 400 and above) have a higher standard of living in which expenditure on articles other than those which constitute the primary necessaries of life (food, clothing and shelter) plays a greater part and they can create a cushion for themselves against a rise in prices by cutting down the expenditure on those articles.

The suggestion that all those who come within the taxation limit under the Indian Income-tax Act should not get dearness allowance does not conform to the general scheme of dearness allowance formulated by the Second Pay Commission, nor do I think that tax concessions under the existing scheme of Income-tax law can give them sufficient relief for the fall in their real income. Prices fluctuate frequently and the rise may be steep or gradual. It is obvious that taxation law cannot be changed as frequently as prices fluctuate, and tax relief can seldom keep pace with price fluctuations. As to the standard of living of employees in the higher pay ranges, I do not think that it is an undesirable thing in itself that middle class families maintain a better standard of living. It is well known that what distinguishes the middle class from the working class is that the latter spends a major part of its income on primary necessaries, whereas the former spends somewhat less on primary necessaries and more on education and other amenities of life. It is indeed true that when there is a rise in prices, particularly of essential commodities like foodgrain, middle class families can cut down their expenditure on non-essential articles and thereby mitigate the effect of the rise. This they can do to a much greater extent than poorer people who have to spend almost the whole of their income on primary necessaries of life. That is the reason why neutralisation must descend rather steeply when the first category of middle class families (say Rs. 400 and upward) is reached. But there is a danger of pushing this argument too far, because there are certain other considerations which must also be taken note of. I do not think that it is sound policy, either of economics or administration, to "depress" the middle class to the position of the working class. The Administration must always require persons of skill, special knowledge and administrative ability, and they are usually recruited from the middle classes. Depressing the standard of living of these classes may ultimately affect the recruitment of suitable persons in the higher pay ranges; it may in the end be a very doubtful gain to deny them some compensation for a fall in their real income. A contented service is generally an asset; and a discontented service a liability. It is also to be remembered that the temptation to make corrupt or illegal gains is always stronger in an insufficiently paid service, which has to look

to other means for supplementing the normal income. The problem is not one of pound, shillings and pence only; that is a relevant factor, but it is also an administrative and human problem.

My recommendations as to the pay ranges and the upper limit are:

	Pay ranges.
1.	70—109
2.	110—149
3.	150—209
4.	210—399
5.	400—599
6.	600—799
7.	800—999
8.	1000—1200

The pay ranges adopted by the Government for the purpose of granting dearness allowance have been kept in tact in the first three pay ranges. The fourth pay range of Rs. 210-399 is a combination of two existing pay ranges, namely, Rs. 210-299 and Rs. 300-399. These two pay ranges have been combined for the reasons which I have earlier stated, namely, to give effect to the observations of the Second Pay Commission in paragraph 9 of Chapter IX of their Report. The pay range of Rs. 400-599 is the same as the existing pay range. The remaining three pay ranges numbered 6, 7 and 8 are the additional pay ranges which I am recommending.

I had asked the Ministry of Finance for a note on the proposed pay ranges and as to how they fit in with the classification of posts. Shri G. C. Katoch, Joint Secretary, has been kind enough to send me such a note. It appears from that note that the pay range Rs. 70-109 covers all class IV staff. The pay ranges Rs. 110-149 and Rs. 150-209 cover the bulk of class III employees; they also cover skilled workers (110-3-131 and 110-3-131-4-143); highly skilled workers (150-5-180 and 150-5-175-6-205-7-240); Lower Division Clerks (110 to 180); Upper Division Clerks (130 to 300) and Assistant Station Masters and other 15 categories of employees in the Railway (150-5-175-6-205-7-240). The pay range Rs. 210-399 covers the remaining categories of Class III posts, as for example—

210—10—290—EB—15—485 . .	I. Tax Inspectors.
210—10—290—15—380 . . .	Inspector, P. & T. Offices, Clerical Supervisory Grade.
210—10—290—15—320—15—425 .	Technical Assistants. Stenographers outside the Secretariat.

It also partly covers Class II posts of Assistants (210-10-270-15-450-20-530). The pay range of Rs. 400-599 covers Class II gazetted posts and posts in the Junior Class I Service. It also covers some Class III posts, namely:—

350—20—450—25—475.

335—15—425.

450—25—575.

425—25—575.

The remaining pay ranges from 600 to 1,200 cover Class II gazetted posts and posts in Junior Class I Service. In addition, they cover posts in Senior Class I Service, Senior Scientific scales and the scales applicable to Under Secretaries. I should like to make it clear here that it is not necessary that the pay ranges must in all cases exactly fit in with the classification of posts. Such classification has many ramifications and it would be impossible to have an exact fit; moreover, the need for compensation does not depend on the nomenclature of the post an employee holds, but on what he gets by way of remuneration.

An explanation may be given here as to the necessity of having pay ranges. If dearness allowance is based on the percentage basis and each employee gets a certain percentage of his pay, then each employee on a particular pay becomes a class by himself and it would be unnecessary in that event to arrange for pay ranges. The Bank Award proceeded on that basis. That, however, is not consistent with the scheme of dearness allowance formulated by the Second Pay Commission, which fixed two pay ranges and determined the amount payable as dearness allowance to all employees within each pay range. The Government accepted it and continued the same scheme of pay ranges in the compensation which they granted from time to time. It is, indeed, true that some Associations, particularly of lower paid groups, asked for a percentage calculation on the basis of full neutralisation or slightly less than full neutralisation, for each employee in the lower paid groups. In my opinion, such a scheme would mean a departure from the basic formulation of the Second Pay Commission, and would involve administrative difficulties in calculating dearness allowance, and also very heavy outlay of expenditure which the national economy would not be able to bear.

The principle which I have followed in fixing the pay ranges is this: in the lower pay ranges, the gap between the lowest and the highest in the range is small; the gap progressively increases in the higher pay ranges. For example, the gap in the pay range of Rs. 70-109 is a gap of Rs. 39. This gap progressively increases till it reaches Rs. 200 in the higher pay ranges. This is consistent with the general principle that a lesser degree of protection is necessary as the salary increases and in the lower pay groups compensation should be as evenly distributed as possible, short of taking each employee as a class by himself.

7. **Neutralisation.**

I now proceed to a consideration of the next important topic, that of neutralisation. The Second Pay Commission has discussed this topic in paragraphs 11 and 12 of Chapter IX of their Report. I have already referred to these two paragraphs in an earlier part of my report. The Commission did not adopt a rigid approach to it, and came to the conclusion that the question of neutralisation must be decided on a consideration of all the relevant circumstances prevailing at the time when the question falls for decision.

In paragraph 16 which contained their recommendations they said: "For a 15 per cent rise in the cost of living, the rates of dearness allowance recommended will compensate an employee on a pay of Rs. 70 per mensem at 14.3 per cent; an employee at Rs. 110 per mensem at 9.1 per cent; one at Rs. 225 per mensem at 8.9 per cent; and an employee at Rs. 300 per mensem at 6.7 per cent." Calculated in terms of neutralisation, the neutralisation recommended in the case of an employee on a pay of Rs. 70 per mensem works out at about 95 per cent; of an employee at Rs. 110 per mensem at about 61 per cent; of an employee at Rs. 225 per mensem at about 59 per cent; and of an employee at Rs. 300 per mensem near about 44 per cent. An essential part of the scheme of the Second Pay Commission is that neutralisation descends also within the pay range; for example, if an employee on a pay of Rs. 70 per mensem gets neutralisation at about 95 per cent, the percentage descends progressively as the salary increases and employees on a pay of Rs. 71, Rs. 72, Rs. 73 and so on, get less and less percentage of neutralisation. At the topmost level of the lowest pay range, namely, at Rs. 149, the neutralisation descends to about 45 per cent. When we go the next higher pay range, the pay range of Rs. 150 and above but below Rs. 300, in which pay range a sum of Rs. 20 was recommended as dearness allowance by the Second Pay Commission, we find that neutralisation starts at 89 per cent in the case of an employee at Rs. 150 per mensem; again, neutralisation descends till it reaches about 44 per cent in the case of an employee at Rs. 300 per mensem.

I may here notice an anomaly to which my attention has been drawn. The neutralisation at the level of Rs. 149 (which is the highest in the lowest pay range) is much less than the neutralisation at Rs. 150 (which is the lowest in the next higher pay range). In other words, an employee on a pay of Rs. 150 gets more neutralisation than an employee who is on a slightly lesser pay, that is, Rs. 149. This is an anomaly which cuts across the principle that higher the pay, lower is the neutralisation.

Such an anomaly appears to be an unavoidable part of the scheme formulated by the Second Pay Commission, because the scheme proceeds on pay ranges, and the principle adopted is that the rate of dearness allowance is calculated on the basis of whatever neutralisation is given to the lowest man in the pay range and then that rate is fixed for the entire pay range. There is no calculation of neutralisation in respect of each employee. This is to avoid the difficulty that even if full neutralisation (i.e.

100 per cent) were given to the lowest man on Rs. 70 and the neutralisation went on descending by even one per cent progressively, it would drop down to zero within a very short range, namely, at the level of Rs. 170. Such a difficulty might, perhaps, be avoided if the same neutralisation were given to each employee in a given pay range and calculation was made accordingly—a method which, as already stated, is not feasible on administrative and other grounds.

The other principle adopted is that neutralisation descends pay range by pay range; if 95 per cent neutralisation has been given for the first pay range, the neutralisation for the next higher pay range will be smaller than 95 per cent. The third principle is that within the pay range itself, neutralisation descends progressively.

The scheme formulated by the Second Pay Commission was adopted by the Government and when Government sanctioned increase in dearness allowance from time to time, they followed the same principles. By and large Government proceeded on a neutralisation of about 75 per cent for the lowest man in the first four pay ranges, taking index number 115 as the starting point for calculating the rise in prices; but in the pay range of Rs. 300 to 399, neutralisation works out at about 54 per cent for the lowest man in the pay range. In the highest pay range of Rs. 400—599, neutralisation works out at about 29 per cent for the lowest man in the pay range.

It is my considered opinion that the dearness allowance granted by Government from time to time is not adequate and requires modification. It is based on neutralisation which falls far short of a fair and reasonable compensation for the fall in real income of Central Government employees as a result of the abnormal rise in prices, a rise which has reduced the income to less than half its former value within a very short period. I am aware that Government is not committed to a cent per cent neutralisation even in respect of the lowest man in the lowest pay range. The statement made by the then Home Minister accepted neutralisation upto 50 per cent only, and for any higher neutralisation demanded by the employees, suggested the setting up of an impartial body.

On the question of neutralisation I am not proceeding on the basis of any admission or any principle akin to that of *res judicata*. I am examining the question strictly on merits. It has been stated before me by some of the witnesses that neutralisation upto 75 per cent for the lowest man in the lower pay ranges is substantially high and should be accepted as sufficient in all the circumstances of the case. In this context, my attention has been drawn to the privileges which Central Government employees enjoy in the matter of (i) medical assistance, (ii) the new Family Pension Scheme under which families of deceased Government employees, permanent or temporary, with a minimum of one year's service are entitled to pension, (iii) educational assistance for children upto the secondary stage for employees drawing salary upto Rs. 600 per month, and (iv) house

Taking all these factors into consideration as also the privileges which Central Government employees enjoy in the matter of medical attendance etc., I have come to the very definite conclusion that a just and adequate neutralisation must start at 90 per cent in the lowest category and descend progressively in the higher pay ranges. Any thing less will be inadequate and unreal as a compensation for the fall in income due to the abnormal rise in prices. If the price line is not held in future, even a 90 per cent neutralisation may prove illusory.

I have heard with some surprise some of the expert witnesses say that a basic pay of Rs. 70 per month is well above the subsistence level, having regard to the national *per capita* income in India, and therefore even the lowest category employees cannot ask for a very high neutralisation. It is, I think, well-known that in urban areas even an illiterate, unskilled labourer gets now-a-days about Rs. 2.50 per day, and if he has to maintain an average family of three persons, what he gets per day is hardly sufficient to meet the basic needs of food, clothing and shelter. The Report on the Middle Class Family Living, 1958-59, gives the expenditure on food, clothing and shelter (housing) of non-manual employees within the income group of Rs. 0—75. In most cities the expenditure on the three items mentioned above exceeded Rs. 70 in 1958-59. On the present prices, the expenditure would be much more. On the data tabulated in the Report, the lowest category employees are really below the subsistence level now. The national *per capita* income is affected by factors like unemployment, under-employment, etc. Central Government employees, even in the lowest category, are literate and have a minimum educational qualification. It would be unfair to compare them with unemployed or under-employed slum-dwellers and then say that as they are a little better off than those people, they are not entitled to a just and fair compensation for the fall in their income. It is not consistent with the declared objective of a socialistic State that Government employees, even of the lowest category, should be relegated to a position where they are hard put to it to meet the primary needs of life. So far as middle income groups are concerned, it is well to remember that their children do not start earning wages as early as the children of the labouring classes. On behalf of the comparatively higher income groups, it has been pointed out that they stand outside the recent scheme of educational assistance. A reference may be made here to overtime allowance. Some of the Associations of higher income groups have pointed out that employees in the lower pay-ranges can supplement their income by earning overtime allowance. Some have referred to the misuse of overtime allowance. They point out that middle and higher income groups are not entitled to overtime allowance and therefore suffer to a greater extent from the recent rise in prices than those who can supplement their income by earning overtime allowance. It is to be remembered, however, that overtime allowance is not earned as a matter of routine; it depends on conditions which must first be fulfilled, however much the scheme may be open to abuse.

rent allowance and City compensatory allowance, etc. It is pointed out that the cost of living index includes the elements of house rent and medical costs, and the privileges already granted by Government must be taken into consideration in deciding the extent of neutralisation, because Government employees who enjoy these privileges will not be affected by any rise of prices in respect of these elements. It has been stated that from the point of view of any Government, "a sound wage policy has necessarily to ensure that increases in salaries are not made in proportion to the rise in prices; and unless this policy is strictly followed, a vicious circle would develop; therefore, a 100 per cent or near 100 per cent neutralisation is wrong in principle and bad in practice."

Whatever be the validity of the aforesaid statement as a general principle of wage policy for Government employees, I find it very difficult to adopt it as an inflexible rule in the matter of the grant of dearness allowance; for I cannot ignore two basic factors relating thereto. One is that dearness allowance is meant as a compensation for the fall in the real income of Government employees, and the compensation must bear a fair and reasonable relation to the magnitude of the fall. I do not consider dearness allowance to be a matter of charity nor is it given on an arbitrary basis. The second basic factor arises out of the scheme formulated by the Second Pay Commission which was accepted by Government. This factor is that whatever neutralisation is adopted, either 100 per cent or near 100 per cent, it applies only to the lowest category in the pay range and not to every one in the pay range. It would be wrong to think, for example, that Government have given 75 per cent neutralisation to each one of its employees even within the pay range for which 75 per cent neutralisation is considered to be just and fair. This is an important aspect of the scheme and must be borne in mind. Even when a near 100 per cent neutralisation is given to the lowest category in one pay range, the average for the pay range will come down to much less. It may even be that when neutralisation in the lowest category is 90 per cent, the average for the pay range will be near about 75 per cent. If the total over-all average of all the pay ranges is taken, the percentage of neutralisation will go down still lower. These essential features of the scheme must be kept in mind when applying any so-called general principle.

When the rise in prices was only 15 points, the Second Pay Commission recommended neutralisation of near about 95 per cent in the lowest category of Rs. 70 and about 90 per cent in the next higher category of Rs. 150. The Government accepted that recommendation and gave effect to it. I find it very difficult to understand why in the case of a much greater rise in prices as a result of which the real income of Government employees has fallen to less than half its former value, it should be considered reasonable and just to fix neutralisation in the lower categories at 75 per cent only. The new major developments since the report of the Second Pay Commission are (i) the Chinese aggression resulting in increasing pressures of defence expenditure, and (ii) the greater momentum of the inflationary trend.

Giving my best consideration to all the factors involved, I recommend the following graduated scale of neutralisation :

Pay ranges	Neutralisation for each pay range on the basis of the lowest paid employee of the range
1. 70—109	90 per cent.
2. 110—149	85 per cent.
3. 150—209	80 per cent.
4. 210—399	70 per cent.
5. 400—599	40 per cent.
6. 600—799	30 per cent.
7. 800—999	24 per cent.
8. 1000—1200	20 per cent.

The scale of neutralisation follows the pattern of the scheme of the Second Pay Commission and starting from 90 per cent in the lowest category, goes down to 20 per cent in the highest. It follows the well-established principle—"higher the salary, lower is the neutralisation." At the end of the marginal adjustments in the pay range of Rs. 1201 to Rs. 1289, neutralisation drops down to nil and compensation ceases.

There is, however, one point which requires some elucidation here. It may well be asked why neutralisation descends so steeply (*i.e.* from 70 per cent to 40 per cent when the pay-range of Rs. 400—599 is reached. One reason is that the earlier pay-range (Rs. 210—399) is a combination of two pay-ranges to give effect to observations of the Second Pay Commission. The second reason, which in my view is the real reason, is that neutralisation must descend steeply when middle class families are reached. I have said that the cushion which they had earlier has either disappeared or shrunk to a negligible limit by reason of the abnormal rise in prices; therefore, they are now entitled to some compensation and should come within the upper limit of the grant of dearness allowance. But employees in this group are also in a position to meet the rise in prices of essential commodities by cutting down their expenditure on non-essential goods. This they are able to do much better than the poorer sections of the community. I had referred to this aspect of the problem earlier in my report. The sum and substance of the matter is that middle class families should get some compensation, because they are also hit by the rise in prices; but in their case neutralisation, that is, the extent of compensation must be much less. This is the ratio of the steep descent from 70 per cent to 40 per cent when the pay range of Rs. 400—500 is reached. Thereafter, there is again a gradual descent.

Recommendations regarding neutralisation and dearness allowance.

*Pay ranges	Neutralisation for the lowest paid employees of each pay range	D.A. at 135 points†			D.A. at 145 points†		Estimated‡ No. of employees (in lakhs)	Average§ neutralisation for the entire pay range
		Method (a)	Method (b)	What Govt. has already given	Method (a)	Method (b)		
1. 70—109 . . .	90%	22	23	20·50	28	29	13·20	79%
2. 110—149 . . .	85%	33	29	25·50	42	38	4·40	73%
3. 150—209 . . .	80%	42	44	42	54	56	2·42	71%
4. 210—399 . . .	70%	51	49	50 35 20	66	64	1·51	56%
5. 400— 599 . . .	40%	55		20	70		0·29	34%
6. 600— 799 . . .	30%	65		..	80		0·07	27%
7. 800— 999 . . .	24%	65		..	85		0·05	22%
8. 1000— 1200 . . .	20%	70		..	90		0·02	18%

*Pay ranges adopted by the Government for the purpose of granting D.A. have been kept in tact in the lower pay ranges except that the pay range Rs. 300—400 has been combined with the immediately preceding pay range *i.e.*, 210—300. This has been done to give effect to the recommendations of the Second Pay Commission in this regard in paragraph 9 of Chapter IX of their report.

†The actual D.A. for each pay range has been adjusted to the nearest rupee in the case of the first four pay ranges and thereafter to the nearest multiple of five rupees.

Method (*a*) The method followed in this case is to neutralise to the specified extent the increase of 35 points/45 points in the all-India working class consumer price index (base 1949=100),

The method followed in this case is to neutralise to the specified extent the increase of 20 points/30 points in the consumer price Index, for each of the first four pay ranges and then to add to this the D.A. already granted on the basis of the Second Pay Commission's recommendations (when the index stood at 115). For the next four pay ranges the entire increase of 35 points/45 points has been neutralised to the specified extent, since the Second Pay Commission's recommendations did not give any relief to these categories.

‡The figures for the different pay ranges have been estimated on the basis of the data contained in "Census of Central Govt. employees—1962". The total No. of Central Govt. employees in 1964 has been assumed at 22 lakhs.

§The average neutralisation for each pay range has been computed as a weighted average of the neutralisation percentages for smaller pay groups (of five rupees in the first pay range, of ten rupees in the second and third pay ranges, of twenty rupees in the fourth pay range and of fifty rupees in the remaining pay ranges) within the pay range. The weights are the estimated numbers of employees in each of these smaller pay groups.

FINANCIAL IMPLICATIONS

	Estimated additional annual expenditure at 135 points		at 145 points	
	Method (a)	Method (b)	Method (a)	Method (b)
	Rs. crores 11·50	Rs. crores 11·20	Rs. crores 30·78	Rs. crores 30·47
Subtract expenditure which Govt. would have incurred on their own for implementing the Second Pay Commission's recommendations at index level of 145 points			19·15	19·15
Additional annual expenditure attributable to the recommendations of the Dearness Allowance Enquiry Body	11·50	11·20	11·63	11·32
For eight months from 1st February 1964 to 30th September, 1964	7·67	7·47		

A comparative statement given on pages 32 & 33 sets out the whole position. It shows (1) the pay ranges; (2) neutralisation for each pay range on the basis of the lowest paid employees in the pay range; (3) dearness allowance at the annual average of 135 points of the price index according to two methods (a) and (b), which I shall presently explain, and what Government has already given; (4) dearness allowance at the annual average of 145 points again calculated according to two methods; (5) the number of employees (in lakhs) in each pay range estimated on the basis of the data contained in "Census of Central Government employees 1962"; and (6) average (weighted) neutralisation for each pay range. The actual dearness allowance for each pay range has been adjusted to the nearest rupee in the first four pay ranges and thereafter to the nearest multiple of five rupees to get an evenly graduated distribution.

I may now explain the two methods (a) and (b). Method (a) neutralises to the specified extent the increase of 35/45 points in the price index, with the base 1949=100. Method (b) neutralises to the specified extent the increase of 20/30 points in the price index for each of the first four pay ranges, starting from 115 points and adding what the Second Pay Commission recommended as dearness allowance for 115 points; for the next four pay ranges, the entire increase of 35/45 points has been neutralised to the specified extent. Most of the Associations have submitted that method (a) is the correct method of determining the compensation for the fall in real income. Some official experts have preferred method (b), but have adopted a different mode of calculation which is explained in the next paragraph. They suggest that that mode should apply to both categories—those to whom dearness allowance had been given earlier and those to whom dearness allowance is now proposed to be given for the first time. The reason given in support of method (b) is this: whatever the Second Pay Commission gave or did not give up to 115 points is final and should not be re-opened; therefore, the calculation should now start from 115 points. In my opinion, method (a) is more scientific and correctly indicates the compensation for the rise in prices, the rise having relation to the base 1949=100. It is not a case of re-opening what the Second Pay Commission gave or did not give for 115 points; what is being determined now is the compensation payable when the annual average of 135/145 points has been reached—a problem which did not face the Second Pay Commission and regarding which it gave no final decision.

Shri G. C. Katoch, Joint Secretary in the Ministry of Finance, has been kind enough to send me a note explaining the method of calculation followed by Government in basing the grant of dearness allowance on a 75 per cent neutralisation in the lower pay ranges, starting from 115 points rather than from the base of 100 points which the Pay Commission accepted for (i) fixing salaries and (ii) adjusting dearness allowance. The method is explained in the following example with regard to the pay range Rs. 110—149 at 135 points of the index:

	Pay	D.A.
115 is equal to Rs. 120	(Rs. 110	+Rs. 10)

135 is equal to $\frac{120 \times 135}{115}$ =Rs. 140·87

Dearness Allowance for full neutralisation of 20 points will be Rs. 20·87

(Rs. 140·87 — Rs. 120=Rs. 20·87)

As against this, the increase in dearness allowance as sanctioned was Rs. 15·50, which gave a neutralisation of 74·27 per cent. It seems to me that this method of calculation is open to the objection that the salary of an employee is related to 115 points rather than to 100, which was the base on which the salary was fixed. There is a very small difference in the result, whichever of the two modes is adopted, in respect of the first four pay-ranges. But the difference becomes very remarkable in the higher pay ranges. This is demonstrated by taking as an example the pay range of Rs. 400—599 for which the Pay Commission recommended no dearness allowance at 115 points. Following the method referred to above the calculation will be:

Pay D.A.

115 is equal to 400 (Rs. 400+nil)

135 is equal to $\frac{400 \times 135}{115}$ =Rs. 469·60

Dearness Allowance for full neutralisation of the rise of 20 points will be Rs. 69·60

(Rupees 469·60—Rs. 400=Rs. 69·60)

Giving 40 per cent neutralisation, the amount will be Rs. $\frac{69{\cdot}60 \times 40}{100}$

=Rs. 27·84

This is different from the method adopted by me. The method adopted by me is shown by the following calculation—

100 is equal to Rs. 400

135 is equal to $\frac{400 \times 135}{100}$ =Rs. 540

Dearness Allowance for full neutralisation for the rise of 35 points will be Rs. 140 (Rs. 540 — Rs. 400=Rs. 140)

Dearness Allowance for 40 per cent neutralisation will be

$\frac{\text{Rs. } 140 \times 40}{100}$ =Rs. 56, adjusted to Rs. 55

In the method followed by Government the salary of Rs. 400 is taken as equal to 115 points of the index. This is clearly against the following observations of the Pay Commission:

"We, however, propose to determine the basic salaries in terms of the requirement at an index of 100 (which represents the consumer price level of 1949)".

The reason why the Commission gave no dearness allowance to an employee getting Rs. 400 was *not* that his salary was equal to 115; but the increase of 15 points was so small that an employee on Rs. 400 had enough cushion and needed no protection at that time. It appears to me, and I say this with great respect, that a method which treats the salary as equal to 115 by-passes the real *ratio* behind the recommendations of the Pay Commission. The Pay Commission said in the clearest of terms that the basic salaries were related to 100 and dearness allowance was adjusted to 115, a rise of 15 points; this does not mean that the salary is to be related to 115 when no dearness allowance is recommended. Another result of the method adopted by Government would be this: basic salaries which the Pay Commission fixed at one time and with reference to the requirements of the consumer price index 1949=100 would now have different bases, and this would amount to adoption of different standards in respect of basic salaries fixed on one and the same basis. For example, when no dearness allowance is to be given to some pay groups at 115, their salaries would be related to 115; when none is given at 125, the salaries would be related to 125; when none is given at 135; they would be related to 135; and so on. But when dearness allowance is given, say at 115, the salaries would be related to 100. This difference in basic standard, in my view, is not right, and is clearly against the recommendations of the Commission. Even in respect of pay-groups where dearness allowance is given, the correct approach (an approach in consonance with what the Commission have said) is to relate the pay to 100 and measure the rise in prices by the number of points by which 100 has been exceeded in the index. In all the relevant circumstances existing at the time, some may get dearness allowance and some may not. But that does not alter the position that the salaries are related to the consumer price index 1949=100.

At the annual average of 145 points which was reached in September, 1964. I would recommend the payment of dearness allowance from October 1, 1964 as follows:

Pay range	Dearness Allowance recommended as from October 1, 1964
1. 70—109	Rs. 28
2. 110—149	Rs. 42
3. 150—209	Rs. 54
4. 210—399	Rs. 66
5. 400—599	Rs. 70
6. 600—799	Rs. 80
7. 800—999	Rs. 85
8. 1000—1200	Rs. 90

There should be marginal adjustments for employees drawing pay of Rs. 1201 and above but below Rs. 1290 in order to avoid anomalies.

I must dispose of one more point on the question of neutralisation, and perhaps this should have been mentioned earlier. It has been argued before me that up to a certain point, say Rs. 300, the amount paid as dearness allowance should progressively increase though the percentage of neutralisation may decrease; but beyond Rs. 300 the total amount of dearness allowance should progressively decrease, because at higher levels individual employees have more capacity to absorb price increase on essentials. It is stated that allowing higher amounts of dearness allowance (even though these may be based on a lower percentage of neutralisation) at the higher salary slabs implies assistance for something more than bare necessities. The argument is really the same as the one mentioned earlier, namely, that the standard of living of middle class families is different from that of poorer sections of the community and because of the difference in their standard of living, they can cut down their expenditure on non-essential articles. I have discussed that argument in an earlier part of this report, and I do not wish to repeat what I have already said.

The real basis of compensation is neutralisation which must bear a just proportion to the fall in income and the principle followed is, "higher the salary, lower is the neutralisation." I do not think that there is any principle that the amount of dearness allowance must also progressively decrease (irrespective of neutralisation) beyond the pay-range of Rs. 300. Such a principle, if it can be called a principle, is likely to be artificial and even arbitrary. It seems to me that the limit of Rs. 300 is itself somewhat arbitrary, and the Second Pay Commission clearly envisaged that Government employees in the pay range of Rs. 300—399 should be grouped with those below Rs. 300 in future upward adjustments of dearness allowance. I have found it somewhat difficult to appreciate on what principle Government gave a sum of Rs. 20 only as dearness allowance to employees in the pay range of Rs. 400—599, when an employee on a lower pay range got Rs. 50 as dearness allowance. The grant was no doubt an *ad hoc* grant; but I can discover no recognised principle behind it.

The annual average of 135 points in the price index was reached in January, 1964 and Government gave the last increase in dearness allowance as from February 1, 1964. This was on the basis of the annual average of 135 points. This was the position when the Independent Body was constituted. During the enquiry, however, the annual average rose to 145 points in September, 1964. I have, therefore, recommended that the rates suggested by me should come into effect from October 1, 1964. There is, however, an allied question for consideration. If the pay ranges and neutralisation recommended by me find favour with Government, the question would arise whether they should be given effect to at 135 points of the index also. In other words, the question would be whether my recommendations as to pay ranges and neutralisation would have retroactive operation from February 1, 1964. Most of the experts have ex-

pressed themselves against retro-active operation, which in their view would greatly strengthen the forces of inflation. Most Associations have asked for retro-active operation, on the ground that Central Government employees were long deprived of an adequate compensation and when the adequacy has been determined, it should take effect from the date of the last increase. Some Associations have stated that if the arrears cannot be given in cash, they may be paid in some other manner, such as, crediting the amount in the Provident Fund or in National Savings Certificates etc.

The point is not entirely free from difficulty. There are two matters to be considered: firstly, the amounts representing the difference between what was granted by Government and what should have been granted according to my recommendations in the first four pay ranges at 135 in the index; secondly, the amounts to be paid, for the first time, to employees in the four higher pay ranges. Ordinarily retro-active operation should be given only in very exceptional circumstances. The only exceptional circumstance alleged is that the employees have had to wait for long to get an adequate compensation for the fall in their income, and their past suffering would to some extent be mitigated by giving retrospective operation to the recommendations. As against this is to be balanced the consideration that a lump sum payment of the order of about 7 crores, which will be the extent of the arrears for eight months (see the consolidated statement at pages 32-33) from February, 1964 to September, 1964, will undoubtedly strengthen the inflationary trend. I am aware that a small part of the 7 crores, if paid in cash, will come back to Government in the shape of income-tax. Then, there is another aspect of the question. If retrospective operation is to be given on the ground mentioned above, why should one stop at 135 points? To be consistent, one must go back to 125 points also, at least for those who got dearness allowance then. This would be interfering with the past in a very extensive way, and would involve expenditure of a magnitude which the national economy would be unable to bear. There is also a third reason: the grant or refusal of dearness allowance is considered at each stage on the circumstances then prevailing. Ordinarily, it has no reference to what prevailed in the past.

I would therefore recommend, though not without some hesitation, against retro-active operation of the recommendations to a period beyond October 1, 1964. In this view it is unnecessary to examine the further point whether under the present law, payment can be made by credit in the Provident Fund or in National Savings Certificates, etc.

8. Financial Implications of the Recommendations.

These implications have been set out at the foot of the comparative statement at pages 32-33. The figures given there are approximate figures, and not exact figures. The estimated additional expenditure of the increase in dearness allowance recommended by me at 145 points of the cost of living index is approximately thirty-one crores per year; out of this is to be deducted a sum of about twenty crores which Government would have given at 145 points on the principle followed by them. The net result, therefore, is an increase in the neighbourhood of about eleven

crores, a part of which (about a crore) is likely to be recovered by way of additional income-tax. This sum has to be considered against the background of the total annual receipts and expenditure of the Central Government and of the Railways. This is shown in Appendix V. The increase of ten crores will be less than one per cent of the total revenues including the Railways; and about 0·2 per cent excluding the Railways.

This is a burden which, I think, the national economy can bear without any serious repercussions. On behalf of the Railways it was pointed out that the net annual surplus was in the neighbourhood of thirty crores for the last few years, and an increase in dearness allowance for a large number of Railway employees (about 12 lakhs) would make a serious inroad on the surplus and affect normal development of the Railways and result in an increase of fare, freight etc. On the other side, the National Federation of Railwaymen have stressed the point that Railwaymen have not got a fair return for their labour, though others connected therewith have got a good return either for their investment or labour. I do not think that it is necessary to go into these matters in greater detail. For the purpose of dearness allowance, Railwaymen have been treated in the same way as other Central Government employees and the general principles which govern the grant of dearness allowance to Government employees must apply to all.

This brings me to the end of the first part of my report, which contains my recommendations. I now go to the Second part.

PART II

In this part I am considering the merits and demerits of the "annual average of 10 points" formula known briefly as the Dearness Allowance Formula evolved by the Second Pay Commission. I am doing this in view of the statements made in Parliament by the Minister of State, to which I had earlier made a reference.

9. **Dearness Allowance Formula.**

There are two essential ingredients of the formula; one is the time factor and the other is the "number of points" factor. The time factor is a period of 12 months, and the number factor is 10 points, rise or fall, in the cost of living index. If during a period of 12 months the index remains, on an average, ten points above or below the number at which dearness allowance was last adjusted, a review is to be made by Government in order to make an appropriate adjustment. The necessity of a review arises by reason of the recommendation of the Commission that there should be no automatic adjustment of dearness allowance. On each occasion Government should be free to weigh the social and economic consequences of the grant or denial of an increase in a particular situation. In support of the formula, the Second Pay Commission said:

> "In recommending a review only if there is a rise of ten points (*i.e.* 10 per cent of the base level index), and for a period of 12

months, we have been guided by the consideration that for budgetary reasons, and considering the long-term character of Government employment, the remuneration of Government servants should not change frequently, and that Government servants should be prepared to take the consequence of a small or short-term rise of prices, which may often be fortuitous, as counterpart of the security of their emoluments, which are rarely changed to their disadvantage. Moreover, whatever conditions have to be fulfilled before a review is to be undertaken to consider an upward revision, have also to be fulfilled for a review for a downward revision. We have, further taken the view that price trends over a shorter period may not, in present conditions, provide a reliable basis for adjustment. This is particularly so because of the decisive importance of food articles in the rather narrow range of articles and services covered by the working class consumer price index."

All the Associations which have submitted memoranda of their views and whose representatives I have heard, have unanimously condemned the formula as unrealistic in theory and unfair to the employees in practice. They say that (1) the time factor imposes a long period of many months, sometimes exceeding a year, and prevents a correct reflection of the price movement from month to month, and (2) the number factor of 10 points is so large that the employees lose much of the compensation which they would be otherwise getting for a rise in prices, and (3) the cumulative effect of the two factors is so restrictive that the employees have to suffer a heavy diminution in their real income for long periods before they can get any relief. It is pointed out that when the index rises by ten points on an arverage, the relief given, if any, takes effect only from the end of the averaging period at which time the index may well be (normally it would be in rising prices) higher than the average figure to which relief is related. This, it is stated, makes a further inroad into the already reduced purchasing power of the employees.

On behalf of these Associations many representations have been made for a change of the formula; some have asked for a month to month review of every rise or fall; some have asked for a six monthly review on an average rise or fall of 5 points or more over the preceding three months; some have asked for a three monthly review on the basis of the average of the preceding three months; and some have agreed to an annual review, but on the basis of five points only, and not ten points. As a matter of fact any number of permutation and combination of the two factors is theoretically possible. The largest number of Associations have signified their approval to a six monthly review on the basis of a rise or fall, on an average, of five points or more in the preceding three months.

Before I go into the question on merits, it is necessary to dispose of one preliminary point. The Second Pay Commission connected the formula with their recommendation that the adjustment should not be automatic. Are the two necessarily connected in the sense that one cannot be accepted

without accepting the other, and one cannot be rejected without rejecting the other? I may state here that most of the Associations have pleaded for an automatic adjustment; for they say that the cumbrous procedure of a review followed sometimes by a Commission or Enquiry Body not only delays matters to the detriment of employees, but makes the traders wise who at once push up prices in anticipation of a rise in dearness allowance and thereby nullify, to a great extent, the efficacy of the compensation ultimately given.

I consider, however, that the Commission gave very good reasons for not recommending an automatic adjustment; yet I consider that the "annual average of ten points" formula has worked some what unfairly on the employees and needs further examination. The two recommendations, one against automatic adjustment and the other regarding annual average of ten points, are not connected as cause and effect; it is possible to accept the recommendation against automatic adjustment, yet modify the formula, either with regard to the time factor or number factor or both. If, of course, automatic adjustment is accepted, then a formula must be part of the automatic arrangement, but not *vice versa*.

The primary purpose for which the formula has been evolved must be kept in the forefront in examining it on merits. The primary purpose is to give effect to the principle that on a rise or fall in prices which substantially affects the real income of Government employees, a *prima facie* case arises for review of the grant of dearness allowance; Government then reviews the matter and having regard to all the conditions then prevailing decides what dearness allowance, if any, should be granted. If the formula is so restrictive that it does not accurately reflect the price movement (what I have called the number factor) or defers consideration of the matter for an inordinately long time (what I have called the time factor), then the primary purpose of the formula is not fulfilled. In view of the representations made and the facts placed before me, I have formed the opinion that the formula needs further examination. I am satisfied that the formula has worked unfairly on the employees, and either the time factor or the number factor or both require modification. To explain the position I have had prepared the index from 1958 to 1964, showing therein, month by month, the 12 monthly average, the six monthly average and the three monthly average. Starting from 115, increases of five points are shown in blue against each of the three averages—annual, six months and three months; increases of ten points are similarly shown in red against the three averages. The month in which the increase takes place at each stage is also indicated therein. The index, which is marked Appendix VI, attempts to show at a glance the position that would emerge if the time factor is 12 months, six months, or three months and also if the average of ten points or five points is taken. Of course, a five points increase gives double the number of increases, double that of the ten points' increase. The number of five points' increases is 6 in the 12 monthly and six monthly averages, as compared to 3 in the case of ten points' increases. In the three monthly average, the numbers are 4 and 8 respectively. The time taken to reach the average is necessarily much

longer when the average is 10 points as compared to five points. I must rule out at once the three monthly avearge on the ground mentioned by the Pay Commission; namely, the long term character of Government employment and the consideration that the remuneration of Government servants should not change very frequently. The three monthly average gives too frequent changes, whether we take five points or ten points. Moreover, I consider that the three monthly average is impracticable on administrative and budgetary grounds.

I am not called upon to make any specific recommendation with regard to this matter. I would like however to state why I consider that the formula has not worked very fairly on Government employees; first of all, ten points rise in the index is a very substantial rise as it reduces the real income by one-tenth; secondly, if the ten points rise is to be an annual average of ten points, then the time taken to reach the average is inordinately long and in the meantime, employees suffer great hardship without any compensation I may give an example to illustrate my point. I started the enquiry in September, 1964. The August index figure which was then available stood at 156, though the annual average was below 145. The employees got their last increase of dearness allowance on February 1, 1964 which was related to the annual average of 135. Therefore, the employees had to suffer a large diminution of their real income for several months before the annual average of 145 was reached in September, 1964.

A fresh examination of the formula may perhaps disclose some means by which hardship of the kind stated above may be avoided. This may be done in one of three ways—

(1) reduce the time factor to 6 months, while retaining 10 points;

(2) reduce the number of points to five, while retaining the time factor of 12 months; or

(3) reduce both the factors—time to 6 months and points to five.

The third has the approval of the largest number of Associations. Most of the Associations have agreed before me that any rise or fall which does not reach five points should be ignored. This would ensure that seasonal fluctuations or fluctuations due to fortuitous circumstances need not be considered. It is necessary to remember that if the price level continues to be steady or the fluctuations are not very great, no serious hardship is likely to be felt by anybody; the salaries would then continue to be stable, and there will be no occasion for grant or revision of dearness allowance. It is only when prices are steadily falling or steadily rising or the fluctuations are great that the adoption of one formula or the other has important consequences. The present over-all position is one of a steady rise in prices, sometimes by one or two points and sometimes by more, with some seasonal fluctuation. The efficacy of the formula falls to be considered in that context.

The Varadachariar Commission recommended that the slab rates should be examined every six months and a revision made only if the index figures for the last three months for which they were available stood above or below the index figures for the next slab. The slabs which the Varadachariar Commission recommended were slabs of 20 points of the old series. I am given to understand that 20 points of the old series would correspond to about 6 points of the current series. The Government accepted the recommendations of the Varadachariar Commission in May 1947, but did not follow them when the cost of living index began to rise.

I do not hold the view that the recommendations of the Varadachariar Commission should be revived they cannot be revived for the simple reason that circumstances have undergone a radical change since 1946-47, when the Varadachariar Commission considered the matter.

There is one more point which I wish to mention. No formula is likely to achieve its purpose, if it has not some flexibility to meet an abnormal situation. When prices are rapidly or steadily falling, most employees, I presume, would like the revision of dearness allowance to be deferred as long as possible; they would ask for a long time factor and a largeness of points. When prices are steadily rising, they would ask for frequent revision. On the other side, no Government can contemplate with equanimity a frequent revision of dearness allowance with the possibility of an additional expenditure of the order of ten crores in a highly sensitive economy. Some *via media* has to be found, with a flexibility which will admit of a special or *ad hoc* treatment when an abnormal situation faces the country.

The final comments which I wish to make with regard to the formula are these—

(1) In the context of the rise in prices since 1958, the formula has not fulfilled its primary purpose; it has worked unfairly on the employees in two ways—(a) it has not ensured a consideration of just compensation for a substantial fall in their real income; and (b) it has delayed the consideration over an inordinately long period.

(2) The formula needs further examination with regard to either or both the factors involved—time factor and the number of points factor.

(3) Some modification of the formula is necessary, as long as prices do not stabilise, and a *via media* has to be found with a flexibility which will admit of special treatment in an abnormal situation.

I have made these comments for such consideration as the Government may wish to give, in pursuance of what was stated on behalf of the Finance Minister in the Rajya Sabha on September 29, 1964. I have desisted from making any recommendation, as a revision of the formula does not come within the terms of my reference.

PART III

In this part I merely refer to some demands made before me on behalf of some Associations and individuals. These demands lie outside my terms of reference, and I am not called upon to make any recommendations or comments thereon. I am mentioning these demands merely for the information of Government.

1. Pensioners.

   Many pensioners have claimed before me that as a result of the rise in prices, they are suffering great hardship and if dearness allowance is increased, pensions must also be increased.

2. Persons on consolidated pay.

   Some Government employees who are on consolidated pay and do not get any dearness allowance, have asked for dearness allowance. A special claim has been made on this behalf by the members of the National Off-Shore Fishing Seamen Association, Cochin.

3. Fair Price Shops; subsidized foodgrain shops, etc.

   Several Associations have claimed that instead of periodically revising dearness allowance, Government should supply essential commodities at a fair price to their employees.

4. Railway to be treated as an industry.

   It has been claimed on behalf of some Railwaymen that the Railway should be treated as an industrial undertaking, and a Wage Board set up for the purpose of revising the pay structure and dearness allowance.

5. Pre-1931 Entrants.

   These have claimed a full (instead of half) merger of initial dearness allowance given to them in their pay.

6. City Compensatory Allowance etc.

   Some Associations have claimed that the classification of cities, into A, B1, B2 and C on the basis of population is unscientific and should be rationalised.

7. Privileges as to house rent allowance, educational allowance, etc.

   Some of the Associations have claimed that these privileges are inadequate and should be modified in several particulars.

8. Children's Allowance.

   Some Associations have claimed an allowance for children upto a limit of three or five.

9. Cost Accountants' Training School, Calcutta.

   The trainees of this School asked for an increase in their stipends on the ground of a rise in prices.

10. Dearness Allowance should be free from income-tax.

Some Associations have claimed that dearness allowance should be free from income-tax.

10. Conclusion.

I have given my best consideration to all the questions involved in the problem as delimited by the terms of reference. I am fully conscious that some of the recommendations may be open to criticism from one point of view or another. In the course of my enquiry two facts have left a deep impression on my mind; one is that whatever scheme is evolved, the nature of the problem is such that there will be room for some criticism; secondly, it would be a grave error to assume that the interests of Government employees are in opposition to the needs of the State in the matter of dearness allowance. It is possible to harmonise them, and I have tried to do so to the best of my ability within the limited scope of my terms of reference. I have not tried to take shelter under the golden mean; for there is a golden mean even in applying the golden mean. Neither have I sought shelter under the cloak of a "not-too-little-not-too-much" attitude. I have given where I felt "giving" would be justified, and refused where I felt "refusing" would be justified, in all the relevant circumstances relating to the grant of dearness allowance. What is needed is a national rather than a regional or partisan approach to the problem. The need of the hour is stabilisation of prices. Without such stabilisation, dearness allowance itself becomes a vicious circle and any relief given is rendered unreal within a short time. A very great responsibility rests on those who are in charge of policy-making to bend all their efforts for achieving price stabilisation; indeed, such efforts should be made by all—producer, distributor or consumer—in the interests of the good of the country.

The responsibility for the recommendations is undoubtedly mine; but the responsibility for taking decisions thereon will be that of the Government. I have no doubt in my mind that the Government will give the fullest consideration to all the issues involved in the problem, and I am submitting this report in the hope that it will be of some help to them in arriving at the right decisions.

In conclusion, I wish to record my thanks to all those who have given me assistance in the course of my enquiry, including the members of my staff who spared no pains to make my work easy and fruitful. They have worked ungrudgingly and deserve full credit for the hard work put in by them. Without their help it would have been impossible for me to finish the work within such a short time.

S. K. DAS,

NEW DELHI;
January 1, 1965.

APPENDIX I

1. India Security Press Staff Association, Nasik Road.
2. Central Railway Foremen's Association, Matunga.
3. Uttar Railway Karmchari Union, Bikaner.
4. Poona Central Excise Collectorate Ministerial Officers Union, Poona.
5. Western Railway Mazdoor Sangh, Gandhidham.
6. All India Defence Employees Federation, Poona.
7. Central Excise Employees Union Class IV, Ahmedabad.
8. India Security Press Ministerial Staff Union, Nasik Road.
9. Rashtriya Press Kamgar Union, Nasik.
10. National Railway Mazdoor Union, Nagpur.
11. Defence Accounts Association, Poona.
12. Central Railway Mazdoor Sangh, Sangh Sadan, Byculla Bombay.
13. Western Railway Mazdoor Sangh.
14. Employees State Insurance Corporation Employees Union, Bombay.
15. Madhya Railway Karmchari Sangh, Bombay.
16. Central Railway Class II Officers Association, Bombay.
17. All India Federation of Income-tax Gazetted Services Association, Bombay.
18. Association of Gazetted Officers of the Income-tax Deptt., Bombay.
19. Indian National Off-shore Fishing Seamen's Association, Panyappilly, Cochin.
20. The Cochin Port Staff Association, Willingdon Island, Cochin.
21. H.M.T. Karmik Sangha, Jalahalli, Bangalore.
22. National Union of Employees State Insurance Corporation, Madras.
23. I.C.F. Employees Union, Ayanavaram, Madras.
24. Southern Railway Employees Sangh, Madras.
25. Coffee Board Employees Association, Bangalore.
26. Income-tax Officers Association, Coimbatore.
27. All India EME Civilian Personnel Association, Secunderabad.
28. Mysore State Income-tax (Gazetted) Service Association, Bangalore.
29. Federation of Workers of the Govt. of India Presses, Calcutta.

30. Central Employees Union Co-ordination Committee, Calcutta.
31. Govt. Metallurgical Inspectorate Employees Union, Jamshedpur.
32. Customs and Central Excise (non-gazetted) Union, Shillong.
33. Central Excise & Land Customs Ministerial Officers Association, Shillong.
34. Co-ordinating Committee Central Govt. Employees Association & Unions, Shillong.
35. All India C.P.W.D. Labour Union, New Delhi.
36. National Federation of Indian Railwaymen.
37. Central Secretariat Stenographers' Service Association, New Delhi.
38. India Meteorological Deptt. Gazetted Officers Association, New Delhi.
39. Ministry of Labour & Employment Section Officers Association, New Delhi.
40. C.S.S. Section Officers Association, New Delhi.
41. Central Industrial Relations Machinery Officers Association, New Delhi.
42. Military Engineer Service Civilian Officers Association, New Delhi.
43. All India Association of Non-gazetted Officers of Ordnance and Clothing Factories & Inspectorates, Muradnagar.
44. Central Secretariat Service Grade I Association, New Delhi.
45. C.O.D. Chaturth Shreni Mazdoor Union, Agra.
46. All India Association of Clerical Employees of Ordnance & Cloth Factories, Kanpur.
47. All India Defence Civilian Clerks Association, New Delhi.
48. All India A.O.C. Clerks Association, New Delhi.
49. All India Association of Store Keepers and Storemen of the A.O.C.
50. C.S.S. Section Officers (Class I) Association, New Delhi.
51. Association of Central Govt. Labour Officers, New Delhi.
52. Ministerial Staff Association, Indian Agriculture Research Institute, New Delhi.
53. C.G.H.S. Medical Officers Association, Delhi.
54. All India Association of Class II Officers of the I.A. & A.D., Simla.
55. N. E. Railway Employees Union, Gorakhpur.
56. Temporary Employees Association, Ministry of Rehabilitation, Jaisalmer House, New Delhi.
57. C.S.S. (Direct Recruits) Gazetted Association, New Delhi.

58. All India C.P.W.D. (EMC) Labour Union, Pahari Dhiraj, Delhi.
59. Indian National Defence Workers Federation, Kanpur.
60. All India Association of Ordnance Officers Civilian (Direct) A.O.C. New Delhi.
61. A.F.H.Q. Superintendents Association.
62. Ordnance Factory Karmchari Union, Kanpur.
63. Class II Officers' Association of the Indian Audit and Accounts Deptt., Madras.

सत्यमेव जयते

APPENDIX II

OFFICIALS

Name	Designation
1. Shri S. Bhoothalingam	Secretary, Ministry of Finance (Deptt. of Economic Affairs).
2. Shri V.T. Dehejia	Secretary, Ministry of Finance, Deptt. of Expenditure, Revenue & Company Law.
3. Shri L.P. Singh	Secretary, Ministry of Home Affairs.
4. Shri D.C. Baijal	Chairman, Railway Board.
5. Shri S. Jagannathan	Financial Commissioner, Railway.
6. Dr. I.G. Patel	Prof. of Economics, Delhi University.
7. Shri G.C. Katoch	Joint Secretary, Ministry of Finance, Deptt. of Expenditure.

NON-OFFICIALS

Name	Representatives of
1. Shri T.V. Anandan 2. Shri Keshav Kulkarni	National Federation of Indian Railwaymen.
3. Shri S.D.Vishinani 4. Shri K. Kannan	Central Secretariat Stenographers' Service Association, New Delhi.
5. Shri L.S. Mathur 6. Shri A.N. Tandon	Indian Meteorological Deptt. Gazetted Officer Association, New Delhi.
7. Shri N.L. Sharma 8. Shri G.C. Saksena	Ministry of Labour & Employment Section Officers Association, New Delhi.
9. Shri R.N. Bakshi 10. Shri N. Seshadri	C.S.S. Section Officers Association, New Delhi.
11. Shri D. Panda 12. Shri S.S. Choudhry	Central Industrial Relations Machinery Officers Association.
13. Shri Raj Mani Sharma 14. Shri S. Natarajan	All India Association of Non-gazetted Officers of Ordnance & Clothing Factories & Inspectorates, Muradnagar.

Name	Representatives of
15. Shri K.P. Sircar . . .	Central Sectt. Service Gr. I Association, New Delhi.
16. Shri H.L. Bhalla . . .	
17. Shri M.L. Sharma . . .	C.O.D. Chaturth Shreni Mazdoor Union, Agra.
18. Shri L.R.S. Tyagi . .	All India Association of Clerical Employees of Ordnance & Cloth Factories, Kanpur.
19. Shri D.N. Sharma . . .	
20. Shri Indar Singh . . .	All India Defence Civilian Clerks Association, New Delhi.
21. Shri C. Viswanathan . .	
22. Shri Purshotam Dev . .	All India A.O.C. Clerks Association, New Delhi.
23. Shri Sukh Dyal . . .	
24. Shri Amrik Singh . . .	All India Association of Store Keepers and Storemen of the A.O.C.
25. Shri Rajput Singh . . .	
26. Shri N. Krishnamachari . .	C.S.S. Section Officers (Class I) Association, New Delhi.
27. Shri V.S. Raghavan . . .	
2 Shri A.J. Joglekar . . .	Association of Central Govt. Labour Officers, New Delhi.
29. Shri H.C. Sanyal . . .	
30. Shri Naraindas C. Makhijani .	Ministerial Staff Association, Indian Agriculture Research Institute, New Delhi.
31. Shri G.N. Talwar . . .	C.G.H.S. Medical Officers Association, Delhi.
32. Shri S.C. Sher . . .	
33. Shri S.R. Chaturvedi . .	All India Association of Class II Officers of I.A. & D.A., Simla.
34. Shri T.S. Sharma . . .	Temporary Employees Association, Min. of Rehabilitation, Jaisalmer House, New Delhi.
35. Shri H.L. Dhawan . . .	
36. Shri C.P. Kapoor . . .	C.S.S. (Direct Recruits) Gazetted Association, New Delhi.
37. Shr N. Balasubramanian . .	
38. Shri T.C. Sethi. . . .	All India C.P.W.D. (EMC) Labour Union, Pahari Dhiraj, Delhi-6.
39. Shri K.R. Swami . . .	
40. Shri R.N. Pathak . . .	Indian National Defence Workers Federation, Kanpur.
41. Shri B.S. Mathur . . .	All India Association of Ordnance Officers Civilian (Direct) AOC, New Delhi.
42. Shri K.S. Ahluwalia . .	
43. Shri D.P. Kapur Singh . .	Individual.

Name	Representatives of
44. Shri L.R. Verma	Individuals from Labour Bureau, Simla.
45. Shr H.K. Gogna	
46. Shri Ganesh Prasad	
47. Shri N.K. Gupta	A.F.H.Q. Superintendents Asscciaticn.
48. Shri M.K. Kesar	
49. Shri C.B.L. Tewari	Ordnance Factory Karamchari Union, Kanpur.
50. Shri Raj Kishore Singh	
51. Shri K.R. Sundaram	India Security Press Staff Association, Nasik Road.
52. Shri R. Venkataraman	
53. Shri N.S. Khare	Central Railway Foremen's Asscciaticn, Matunga.
54. Shri D.N. Singh	
55. Shri P.G. Deshpande	Poona Central Excise Collectorate Ministerial Officers Union, Poona.
56. Shri M.B. Ramsinghani	India Security Press Ministrial Staff Union, Nasik Road.
57. Shri N.N. Sardesai	
58. Shri J.N. Dass	Rashtriya Press Kamgar Unicn, Nasik.
59. Shri V.P. Pawar	
60. Shri S.S. Joshi	Defence Accounts Asscciaticn, Pccna.
61. Shri S.N. Kulkarni	
62. Shri S.M. Shukla	Central Railway Mazdoor Sangh Byculla, Bombay.
63. Shri H.N. Lashkari	
64. Shri Y.S. Bagwe	Poona Central Excise Collectorate Ministrial Officers Union, Poona.
65. Shri Keshav H. Kulkarni	Western Railway Mazdcor Sangh, Bombay.
66. Shri P.R. Nimonkar	
67. Shri M.R. Krishnamurthy	Central Railway Class II Officers Association, Bombay VT.
68. Shri J. Reynolds	
69. Shri B.S. Nadkarni	All India Federation of Incometax Gazetted Services Association, Bombay.
70. Shri P.C. Joseph	
71. Shri B.S. Gupta	Western Railway Mazdoor Sangh, Gandhidham
72. Shri K.K. Bhatia	

Name	Representatives of
73. Shri A.R. Shammaduran	Indian National Offshore Fishing Seamen Association Panayappilly, Cochin.
74. Shri K.G.R. Menon	
75. Shri A.L. Mathew	The Cochin Port Staff Association, Willingdon Island, Cochin-3.
76. Shri S. Sivaraman	
77. Shri K.S. Pattabiraman	I.C.F. Employees Union, 47/1, I.C.F. Colony, Ayanavaram Madras-23.
78. Shri C. Padmanabhan	
79. Shri P. Subbaramaiah	Sothern Railway Employees Sangh, Unity House, 37, Main Road, Perambur, Madras.
80. Shri G. Rammanujam	
81. Shri P. Vittal Rao	Coffee Board Employees Association, Bangalore.
82. Shri M.S. Ramaswamy	Incometax Officers Association, Coimbatore.
83. Shri K. Venkataraman.	
84. Shri C. Sreenivasa Rao	All India EME Civilian Personnel Association, Secunderabad.
85. Shri N.C.K. Nair	
86. Shri L.V. Anantpam	Class II Officers' Association of the I.A. & A.D., Madras.
87. Shri V. Chandramowli	
88. Shri J.D. Chandra Mohan	National Union of Employees State Insurance Corporation, Madras.
89. Shri R.N. Swamy	
90. Shri S. Bhattacharjee	Eastern Railwaymen's Congress, Howrah.
91. Shri K.K. Dutta	
92. Shri M. Singh	South Eastern Railwaymen's Congress, Howrah.
93. Shri S.M. Mukerjee	
94. Shri Radha Nath Mukerjee	North Frontier Railway Employees Union, Lamding Assam.
95. Shri N. Chakravertty	Central Employees Union Coordination Committee, Calcutta.
96. Shri Sunil Ch. Das	
97. Shri Birendra K. Ghosh	Eastern Railway Press Workers, 179/36 Tindil Bagan (Rly. Colony), Howrah.
98. Shri Debabrata Ghoshal	

APPENDIX III

Statement showing the working class consumer price index numbers and the 12 monthly average index
(1949=100)

Month	1959		1960		1961		1962		1963		1964	
	Index	Average	Index	Average	Index	Average	Index	Average	Index	Average	Index	Average
January			122	121·83	123	123·75	127	126·17	130	130·58	140	135·00
February			122	122·17	123	123·83	127	126·50	129	130·75	142	136·08
March			121	122·50	124	124·08	127	126·75	130	131·00	143	137·17
April			122	122·92	124	124·25	128	127·08	131	131·25	144	138·25
May			123	123·25	124	124·33	129	127·50	132	131·50	147	139·50
June			124	123·42	125	124·42	130	127·92	134	131·83	150	140·83
July	124	119·92	126	123·58	127	124·50	132	128·33	135	132·08	154	142·42
August	125	120·33	126	123·67	128	124·67	133	128·75	136	132·33	156	144·08
September	124	120·58	125	123·75	128	124·92	133	129·17	137	132·66	159	145·92
October	126	120·83	125	123·67	128	125·17	134	129·67	138	133·00	163	148·00
November	126	121·17	124	123·50	128	125·50	133	130·08	138	133·42		
December	122	121·42	124	123·67	128	125·83	131	130·33	140	134·17		

APPENDIX

Average expenditure per month of middle class families in the

Name of Centre	Average expenditure per month in 1958-59 of middle class families in the income ranges		
	Rs. 500—750	Rs. 750—1000	Rs. 1000—1500
1. Calcutta	552	736	999
2. Bombay	586	808	941
3. Madras.	587	812	1000
4. Delhi	586	745	1038
Average 'A' Class cities . . .	578	775	995
5. Hyderabad	565	805	854
6. Ahmedabad	496	676	917
7. Bangalore	537	830	1092
8. Kanpur	575	743	1093
Average 'B-1' class cities . . .	543	764	989
9. Lucknow	582	883	1039
10. Nagpur	542	715	977
11. Poona	642	790	1275
12. Madurai	650	1048	825
13. Jaipur	718	1168	1220
14. Agra	597	748	1750
15. Allahabad	710	682	917
Average 'B-2' Class cities @ . .	634	862	1143
Average of 'A' and 'B' class cities .	585	800	1042

NOTE: Average expenditures for 'A' Class B-1 Class, B-2 Class cities have been obtained as simple averages only. The magnitude of the monthly deficit would not however be very much different even if we were to take weighted averages.

@ Varanasi was not covered by the middle class family living survey carried out in 1958-59.

IV

income range Rs. 500—750, 750—1000 and 1000—1500.

	Families in the income ranges		
	Rs. 500—750	Rs. 750—1000	Rs. 1000—1500
1. Average expenditure per month of a middle class family in 1958-59 .	Rs. 585	Rs. 800	Rs. 1042
2. Rise in the all-India working class consumer price index between 1958-59 and today	159 points—119 points=39.50 points =33%.		
3. Average expenditure per month of the middle class family today . .	585 195 780	800 267 1067	1042 347 1389
4. Average monthly income of the middle class family whether in 1958-59 or in 1964 @@ . .	Rs. 625	Rs. 875	Rs. 1250
5. Monthly deficit [item (3)—item (5)] .	Rs. 155	Rs. 192	Rs. 139
6. Monthly deficit expressed as a percentage of the monthly income .	25%	22%	11%

@@ In the absence of figures relating to average income, the average income for each income range has been assumed at the middle point of the income range. It is however, likely that the average income will be nearer to the lower limit in these three income ranges, in which case the monthly deficit would be larger than what has been shown in the above statement.

It is assumed that between 1958-59 and 1964, there has been no increase in the average income of a Central Government employee's family belonging to these three income ranges. An increase of Rs. 20/- by way of dearness allowance to the employees drawing a salary of Rs. 500—580 per month, is not likely to alter the average income of families in the income range 500—750 to any large extent. The magnitude of the monthly deficit expressed as a percentage of income is therefore likely to remain the same.

APPENDIX V

Estimate of the Revenue and Expenditure of the Central Government 1964-65

(Figure in crores of rupees)

	Railways	P & T	Defence	Other Ministries	Total	Total excluding Railways
1. Total Revenue receipts of the Central Govt.	668	127	18	2095	2908	2240
2. Total Revenue expenditure (gross) of the Central Govt.	534	136	753	1410	2833	2299
3. Salary and allowances for staff	274	69	72	115	530	256
4. Basic Pay	183	43	48	78	352	169
5. D. A	38	8	9	12	67	29
6. D. A. as percentage of the total expenditure on salary and allowances	13·9%	11·6%	12·5%	10·4%	12·6%	11·3%
7. D. A. as percentage of the total revenue expenditure of the Ministry	7·1%	5·9%	1·2%	0·9%	2·4%	1·3%
8. Impact of the proposed recommendations—increase in D.A. (Rs. crores)	17	4	4	6	31	14
9. Net increase in D.A. attributable to the recommendations of the Dearness Allowance Enquiry Body	6	1	1	2	10	4
10. Total D.A. payable after recommendations	55	12	13	18	98	43
11. Fig. in row (9)—net increase in D.A. attributable to the recommendations of the Dearness Allowance Enquiry Body—expressed as a percentage of the total revenue receipt—row (1)	0·9%	0·8%	5·6%	0·1%	0·3%	0·2%

12. Fig. in row (10) expressed as a percentage of the total revenue expenditure of the Ministry —row (2)	10·3%	8·8%	1·7%	1·3%	3·5%	1·9%

1. Figures for items 3, 4 and 5 above, not being available separately for the Ministries of Railways and Defence, have been estimated on the basis of the number of Central Govt. employees working in each Ministry. Figures for the P&T and 'other Ministries' given in this statement do not, therefore, tally with the corresponding figures given in the "Explanatory Memorandum on the Budget of the Central Govt. for 1964-65".

2. Figures given in the case of the Defence Ministry (except under items 1 and 2) relate to the Defence (Civilian) personnel only.

APPENDIX VI

Working Class Consumer Price Index Numbers

Year/month	Index	12 monthly average index	6 monthly average index	3 monthly average index
1958				
January	111	111·17		
February	110	111·42		
March	110	111·67		110·33
April	111	111·92		110·33
May	113	112·17		111·33
June	116	112·50	111·83	111·33
July	119	113·08	113·17	116·00
August	120	113·67	114·83	118·33
September	121	114·25	116·67	120·00
October	123	115·08	118·67	121·33
November	122	115·75	120·17	122·00
December	119	116·25	120·67	121·33
1959				
January	117	116·75	120·33	119·33
February	118	117·92	120·00	118·00
March	117	118·00	119·33	117·33
April	117	118·50	118·33	117·33
May	119	119·00	117·83	117·67
June	122	119·50	118·33	119·33
July	124	119·92	119·50	121·67
August	125	120·33	120·67	123·67
September	124	120·58	121·83	124·33
October	126	120·83	123·33	125·00
November	126	121·17	124·50	125·33
December	122	121·42	124·50	124·67

Year/month	Index	12 monthly average index	6 monthly average index	3 monthly average index
1960				
January	122	121·83	124·17	123·33
February	122	122·17	123·67	122·00
March	121	122·50	123·17	121·67
April	122	122·92	122·50	121·67
May	123	123·25	122·00	122·00
June	124	123·42	122·33	123·00
July	126	123·58	123·00	124·33
August	126	123·67	123·67	125·33
September	125	123·75	124·33	125·67
October	125	123·67	124·83	125·33
November	124	123·50	125·00	124·67
December	124	123·67	125·00	124·33
1961				
January	123	123·75	124·50	123·67
February	123	123·83	124·00	123·33
March	124	124·08	123·83	123·33
April	124	124·25	123·67	123·67
May	124	124·33	123·67	124·00
June	125	124·42	123·83	124·33
July	127	124·50	124·50	125·33
August	128	124·67	125·33	126·67
September	128	124·92	126·00	127·67
October	128	125·17	126·67	128·00
November	128	125·50	127·33	128·00
December	128	125·83	127·83	128·00

Year/month	Index	12 monthly average index	6 monthly average index	3 monthly average index
1962				
January	127	126·17	127·83	127·67
February	127	126·50	127·67	127·33
March	127	126·75	127·50	127·00
April	128	127·08	127·50	127·33
May	129	127·50	127·67	128·00
June	130	127·92	128·00	129·00
July	132	128·33	128·83	130·33
August	133	128·75	129·83	131·67
September . . .	133	129·17	130·83	132·67
October	134	129·67	131·83	133·33
November	133	130·08	132·50	133·33
December	131	130·33	132·67	132·67
1963				
January	130	130·58	132·33	131·33
February	129	130·75	131·67	130·00
March	130	131·00	131·17	129·67
April	131	131·25	130·67	130·00
May	132	131·50	130·50	131·00
June	134	131·83	131·00	132·33
July	135	132·08	131·83	133·67
August	136	132·33	133·00	135·00
September	137	132·66	134·17	136·00
October	138	133·00	135·33	137·00
November	138	133·42	136·33	137·67
December	140	134·17	137·33	138·67

Year/month	Index	12 monthly average index	6 monthly average index	3 monthly average index
1964				
January . . .	140	135·00	138·17	139·33
February	142	136·08	139·17	140·67
March	143	137·17	140·17	141·67
April	144	138·25	141·17	143·00
May	147	139·50	142·67	144·67
June	150	140·83	144·33	147·00
July	154	142·42	146·67	150·33
August	156	144·08	149·00	153·33
September	159	145·92	151·67	156·33
October	163	148·00	154·83	159·33
November				
December				

GMGIPND—298 M. of Fin.—9-1-65—3,000.